

ISSN 0219-3213

2014 #02

# Trends in Southeast Asia

The Political Economy of the Regional  
Comprehensive Economic Partnership (RCEP)  
and the Trans-Pacific Partnership (TPP)  
Agreements: An ASEAN Perspective

SANCHITA BASU DAS



ISEAS Publishing

INSTITUTE OF SOUTHEAST ASIAN STUDIES

# Trends in Southeast Asia

*The **Institute of Southeast Asian Studies (ISEAS)** was established in 1968. It is an autonomous regional research centre for scholars and specialists concerned with modern Southeast Asia. The Institute's research is structured under Regional Economic Studies (RES), Regional Social and Cultural Studies (RSCS) and Regional Strategic and Political Studies (RSPS), and through country-based programmes. It also houses the ASEAN Studies Centre (ASC), Singapore's APEC Study Centre, as well as the Nalanda-Sriwijaya Centre (NSC) and its Archaeology Unit.*

# 2014 #02

## Trends in Southeast Asia

The Political Economy of the Regional  
Comprehensive Economic Partnership (RCEP)  
and the Trans-Pacific Partnership (TPP)  
Agreements: An ASEAN Perspective

SANCHITA BASU DAS



ISEAS Publishing

INSTITUTE OF SOUTHEAST ASIAN STUDIES

Published by: ISEAS Publishing  
Institute of Southeast Asian Studies  
30 Heng Mui Keng Terrace  
Pasir Panjang, Singapore 119614  
publish@iseas.edu.sg <http://bookshop.iseas.edu.sg>

© 2014 Institute of Southeast Asian Studies, Singapore

All rights reserved. No part of this publication may be reproduced, stored in a retrieval system, or transmitted in any form, or by any means, electronic, mechanical, photocopying, recording or otherwise, without prior permission.

The author is wholly responsible for the views expressed in this book which do not necessarily reflect those of the publisher.

---

### **ISEAS Library Cataloguing-in-Publication Data**

---

Basu Das, Sanchita.

The political economy of the Regional Comprehensive Economic Partnership (RCEP) and the Trans-Pacific Partnership (TPP) agreements : an ASEAN perspective.

(Trends in Southeast Asia, 0219-3213 ; TRS #2/2014)

1. Regional Comprehensive Economic Partnership Agreement.
2. Trans-Pacific Strategic Economic Partnership Agreement (2005).
3. Southeast Asia—Foreign economic relations.
4. Pacific Area—Foreign economic relations.
5. Free trade—Southeast Asia.
6. Free trade—Pacific Area.

I. Title.

II. Series: Trends in Southeast Asia ; TRS #2/2014.

DS501 I59T no. 2(2014)

2014

ISBN 978-981-4519-76-2 (soft cover)

ISBN 978-981-4519-77-9 (e-book, PDF)

---

Typeset by Superskill Graphics Pte Ltd

Printed in Singapore by Mainland Press Pte Ltd

# FOREWORD

The economic, political, strategic and cultural dynamism in Southeast Asia has gained added relevance in recent years with the spectacular rise of giant economies in East and South Asia. This has drawn greater attention to the region and to the enhanced role it now plays in international relations and global economics.

The sustained effort made by Southeast Asian nations since 1967 towards a peaceful and gradual integration of their economies has had indubitable success, and perhaps as a consequence of this, most of these countries are undergoing deep political and social changes domestically and are constructing innovative solutions to meet new international challenges. Big Power tensions continue to be played out in the neighbourhood despite the tradition of neutrality exercised by the Association of Southeast Asian Nations (ASEAN).

The **Trends in Southeast Asia** series acts as a platform for serious analyses by selected authors who are experts in their fields. It is aimed at encouraging policy makers and scholars to contemplate the diversity and dynamism of this exciting region.

## *THE EDITORS*

Series Chairman:

Tan Chin Tiong

Series Editor:

Ooi Kee Beng

Editorial Committee:

Terence Chong

Francis E. Hutchinson

Daljrit Singh



# The Political Economy of the Regional Comprehensive Economic Partnership (RCEP) and the Trans-Pacific Partnership (TPP) Agreements: An ASEAN Perspective

By Sanchita Basu Das

## EXECUTIVE SUMMARY

- ASEAN has been active in the formation of regional trade agreements (RTAs) since the early 1990s. Besides its own integration initiatives like the ASEAN Free Trade Area and the ASEAN Economic Community, ASEAN has also enacted five *plus* 1 FTAs with China, South Korea, Japan, India and Australia-New Zealand, making ASEAN an FTA hub for broader Asian region. Realising the challenges of multiple FTAs, a decision was reached in November 2011 to establish a comprehensive RTA, covering the five ASEAN+1 FTAs under the Regional Comprehensive Economic Partnership (RCEP) framework.
- Another RTA that has attracted lot of attention lately is the Trans-Pacific Partnership (TPP), led by the U.S.
- Despite the similar objective of increasing economic cooperation, the two RTAs differ from each other. RCEP is expected to accommodate the development differences of the member countries, while TPP is said to have a more demanding set of commitments.
- Both RCEP and TPP are perceived to have strategic roles in the Asia-Pacific region. TPP is a component of the U.S.'s Asian 'pivot' strategy, in reaction to Asia's economic rise and integration efforts. TPP also can be viewed as a consequence of the limited integration progress under APEC. In addition many have argued that TPP is a containment strategy aimed at China. RCEP is expected to reinforce ASEAN 'centrality' in the wider Asia-Pacific regional architecture.



- The on-going negotiations for both RCEP and TPP face complex challenges, and are expected to encounter difficulties to conclude.
- The policy makers view RCEP and TPP as pathways leading to a Free Trade Area for Asia-Pacific (FTAAP), an idea that was first floated in 2004 by the APEC Business Advisory Council.  
An FTAAP, using either or both of the TPP and the RCEP pathways, would generate economic gains, though the most heard criticism of FTAAP is that it is not politically feasible.
- For a future FTAAP, there are two possible scenarios: a) RCEP and TPP will merge and b) RCEP and TPP will remain separate and the U.S. and China will not have dual membership. Considering the pros and cons, it is more likely for RCEP and TPP to remain separate in the long-run as while key Asian states want U.S. presence in the region, they would also like to keep it distant from certain regional matters such as the ASEAN+3 cooperation.
- ASEAN must remember its objective of ‘centrality’ and should try to respond to any potential conflicts arising out of RCEP and TPP agreements. As ASEAN states recognize the benefits of both the U.S. and China as key partners, it is important to keep both of them interested in the regional trading architecture. Policy makers need to have a vision for the future, especially if they want to merge the mega-trade agreements for an FTAAP. They should try to harmonise the rules and regulations across the agreements and should ensure that the two trade deals do not increase the business cost in the Asian region, thereby damaging the region’s dynamic economic infrastructure.

# The Political Economy of the Regional Comprehensive Economic Partnership (RCEP) and the Trans-Pacific Partnership (TPP) Agreements: An ASEAN Perspective

By Sanchita Basu Das<sup>1</sup>

## 1. INTRODUCTION

Asia, in order to strengthen economic cooperation among ‘like minded’ trading partners, has been witnessing a proliferation of regional trade agreements (RTAs)<sup>2</sup> since the 1990s (*Table 1*). These RTAs range from unilateral action by the governments to bilateral agreements and further to negotiations at the global level in the World Trade Organization (WTO). Minilateral relationships (or plurilateral agreement), defined as a formal process of intergovernmental collaboration involving more than two countries, fall in between.<sup>3</sup> The minilateral grouping

---

<sup>1</sup> Sanchita Basu Das is an ISEAS Fellow and Lead Researcher (Economic Affairs) at the ASEAN Studies Centre, ISEAS, Singapore. She is also the coordinator of the Singapore APEC Study Centre. The paper is a research output based on a presentation I gave at the Centre for East Asia Policy Studies (CEAP) at the Brookings Institution on 11 February 2014. I would like to thank the participants at the seminar: ‘TPP and RCEP: Competing or Complementary Models of Economic Integration?’ for their feedback. I would also like to thank my colleague, Dr. Malcolm Cook, Senior Fellow at ISEAS, for his insights and valuable comments on an earlier version of this paper.

<sup>2</sup> The paper uses the terminology RTAs and FTAs interchangeably.

<sup>3</sup> Ravenhill, John. (2006) ‘Regionalism’, in John Ravenhill (ed), *Global Political Economy*, Oxford University Press, pp. 172-210.

**Table 1: Free Trade Agreements in Asia (cumulative, as of July 2013)**

	Proposed	Under Negotiation		Signed but not in effect	Signed and in effect	Total	FTAs by Scope	
		Framework Agreement Signed	Negotiation Launched				Bilateral	Plurilateral
1991	1	0	0	2	5	8	6	2
1995	1	0	0	12	19	32	28	4
2000	3	0	6	16	30	55	48	7
2003	18	4	9	22	41	94	78	16
2005	43	18	28	24	56	169	132	37
2010	56	17	47	23	97	240	179	61
2013	51	13	62	22	113	261	190	71

*Note: Asia implies members of the Asian Development Bank.*

*Bilateral refers to a preferential trading arrangement involving only two parties.*

*Plurilateral refers to a preferential trading arrangement that involves more than two parties.*

*Source: Free Trade Agreement Database, Asia Regional Integration Center (ARIC)*

is further divided into different forms. It can involve countries that are geographically concentrated like the North American Free Trade Agreement (NAFTA) and the ASEAN Free Trade Area (AFTA). There are groupings that are geographically dispersed, like the trans-regional groupings linking individual countries located in different parts of the world (such as the Asia-Pacific Economic Cooperation (APEC)) and interregional arrangements that join two established unilateral economic arrangements (ASEAN and Australia-New Zealand). Since 2000, a new form of unilateral arrangement has emerged where a regional grouping collaborates with individual countries (ASEAN–China, ASEAN-India).

It is said that governments have both political and economic motives when entering into a trading arrangement. The political motives could be that of confidence building, i.e. if an international relationship has been blemished by a history of conflict, economic cooperation can bring in a process of confidence building. Cooperation between two countries can also address ‘non-traditional’ security threats.<sup>4</sup> Often regional cooperation increases the bargaining power with the international community, especially for small countries. Again, countries often see economic cooperation as a way to hasten domestic economic reforms and thereby increase its attractiveness to foreign investors.<sup>5</sup> Finally, as a unilateral arrangement has a limited number of partners, it may be considered easier to negotiate and implement than a multilateral one.

As for the economic motives, countries prefer regionalism to multilateralism as the former allows continued protectionism in a bigger geographical space and discourages producers from outside the region. Moreover, regionalism among few countries enables the governments to exclude ‘politically sensitive’ non-competitive domestic sectors completely from the trade liberalisation measures. The recent trend in regionalism also promotes ‘deeper integration’ that goes beyond removing tariffs and non-tariff barriers and includes issues that goes beyond the

---

<sup>4</sup> Threats from environmental damage, illegal migration, organised crime, drug smuggling and international terrorism.

<sup>5</sup> Rodrick, D. (1989). ‘Promises, Promises: Credible Policy Reform via Signalling’, *Economic Journal*, 99/397: 756-772.

WTO framework. Lastly, RTAs are essential to create economies of scale for production and to offer a larger market for consumers, which possibly increase the attractiveness to potential investors.

For the last two decades, Asia has been enjoying rapid economic growth and has successfully managed the effects of two major financial crises – 1997 and 2008. Asia’s strength became evident especially during the 2008 global economic crisis, when the economic growth in the advanced economies of the United States (U.S.) and the European Union (E.U.) slowed markedly, while the large Asian developing economies, notably China, India and Indonesia continued to grow strongly. This changing growth dynamic from the West to the East has accelerated Asia’s rising global prominence. During this same time, the Asian economies, starting with ASEAN as a group, started pursuing economic regionalism. The countries joined the worldwide wave of FTA at the turn of the century and since then have concluded several bilateral and plurilateral arrangements with different political-economy objectives. According to the Asia Regional Integration Centre (ARIC) in the Asian Development Bank (ADB), as of March 2013, Asia had 109 FTAs in effect, 75 FTAs were under negotiation and 50 FTAs have been proposed. Of these, in East Asia, 67 FTAs were in effect, 63 were under negotiation and 41 have been proposed. The characteristics of these FTAs differ according to their background and circumstances, but all are committed to be harmonious with WTO.

Despite such efforts, benefits from the FTAs remained patchy and limited. Concerns have been shown on the potential for negative effects of FTAs because of their complexity and inconsistency of regulations and the ‘noodle bowl’ effect arising from different rules of origin (ROOs). While the importance of the FTAs has been recognised, especially in the fragmented production process, questions have been raised that inconsistency among the FTAs may harm the private sector by increasing the costs of doing business in the region. As a result, two mega-regionals – the Regional Comprehensive Economic Partnership (RCEP) and the Trans Pacific Partnership (TPP) – are striving to generalise the bilaterals and smaller regionals into more coherent region-wide or cross-regional arrangements. At this juncture, the prognosis on these mega regional deals is unclear. The negotiations for both RCEP

and TPP face complex challenges and are encountering difficulties to conclude. While the TPP has missed its December 2013 deadline, after twenty rounds of negotiation, RCEP has begun its journey in May 2013, with the likelihood of completion by end-2015. It is difficult to predict at this juncture how fast or how extensively these agreements will liberalise trade and investment in the vast Asia-Pacific region.

In this scenario, this paper looks at the two mega-trade agreements of RCEP and TPP that are currently being negotiated. The paper discusses the debate surrounding the two agreements and their genesis and strategic role in broader Asia-Pacific region. It examines the possibility of convergence of the two mega-RTAs to an FTAAP, followed by brief concluding remarks and policy recommendations. However, before proceeding to the debate on RCEP vs. TPP, the paper attempts to provide some facts on rising Asia and an analysis of the proliferation of FTAs in ASEAN.

## **2. RISE OF ASIA**

The negotiation of mega-agreements like RCEP and TPP is happening at a time when there are significant economic and political developments in Asia. Many believe that this is an Asian century with global growth being driven by emerging economies like China, India and the smaller countries of Southeast Asia. While China's growth is consistently high since the 1980s, India joined the high-growth bracket since the 1990s. These were soon followed by Vietnam and to some extent Indonesia, Malaysia, Singapore and Thailand (*Table 2*). Together the growth in these economies exceeded the global GDP growth rate by a large margin. Although these countries went through two crises in 1997-98 and 2008-09, they showed higher resilience and better growth rates in the latter economic distress. The U.S., Europe and Japan – the drivers of growth in the 20<sup>th</sup> century – are now suffering from problems of low growth, high debt and lack of structural reform due to domestic political economy issues.

The Asian century is also observed in their contributions to global aggregates of GDP, trade and investment. The share of China and India in global GDP has increased from 1.7 per cent to 8.6 per cent and from 1.8

**Table 2: Economic Growth, 1980-2013 (annual percentage change)**

	<b>1980-89</b>	<b>1990-99</b>	<b>2000-09</b>	<b>2010-13</b>
China	9.8	10.0	10.3	8.8
India	5.5	5.6	7.0	6.0
Indonesia	5.7	4.5	5.0	6.1
Malaysia	5.9	7.2	4.7	5.7
Philippines	2.0	2.8	4.5	6.2
Singapore	7.8	7.3	5.2	6.2
Thailand	7.3	5.3	4.1	4.4
Vietnam	5.0	7.4	6.9	5.8
The US	3.1	3.2	1.8	2.2
The EU	2.1	2.2	1.7	0.8
Japan	4.4	1.5	0.6	2.0
World	3.2	3.1	3.6	3.8

Source: IMF World Economic Outlook Database, October 2013

per cent to 2.4 percent respectively during 1982 to 2009. Over the same period, the share of developing Asia also rose from 11.5 per cent to 19.9 per cent. Due to higher growth rates vis-à-vis the advanced economies, especially after the 2008-09 crisis, the share of marginal contribution to global economic activity is also large for these developing Asian economies. Following these trends, the share of trade and foreign direct investment (FDI) increased during this time (*Table 3*). According to ADB,<sup>6</sup> the two countries of China and India, together with the rest of emerging Asia, may well constitute about half of the global economy by the middle of the 21st century.

---

<sup>6</sup> Hill, Hal and Gochoco-Bautista, Maria Socorro. (2013). ‘Perspectives and Issues’ in Hal Hill and Maria Socorro Gochoco-Bautista (ed.) *Asia Rising: Growth and Resilience in an Uncertain Global Economy*, Edward Elgar and ADB.

**Table 3: China, India and Emerging Asia in the Global Economy**

	<b>China</b>	<b>India</b>	<b>Asia ex-Japan</b>
Share of global GDP (%)			
1982	1.8	1.8	11.5
2000	3.7	1.4	12.7
2009	8.6	2.4	19.9
2015f	11.8	2.9	27.0
2050f	21.5	13.8	47.8
Share of global trade (%)			
2000	3.4	0.8	22.1
2009	7.9	1.8	28.3
Share of global FDI (%)			
2000	1.6	0.2	9.2
2009	6.5	2.2	21.8
Share of global GDP increment (%)			
1990-2009	16.1	4.0	32.6
2000-09	23.0	5.6	42.3
2005-09	36.4	8.5	59.2
Share of global trade increment (%)			
1990-2009	10.4	2.3	32.9
2000-09	12.6	2.9	34.8
2005-09	17.2	4.4	43.5

Note: f = forecast.

Source: Edward Elgar and ADB (2013); pp 6

In addition to being the global economic driver, there are other interesting developments happening in the developing economies of Asia. First, the region became a growing market of almost half of the world's population and a rapidly rising middle class. The United Nations Population Division and Goldman Sachs predict that China will have 1.4 billion middle-class consumers by 2030, compared to a forecast of



only 365 million in the U.S.<sup>7</sup> Another 2010 study by the Organisation for Economic Cooperation and Development (OECD),<sup>8</sup> predicted that the size of the middle class may increase in number from 1.8 billion to 3.2 billion by 2020 and to 4.9 billion by 2030 – with 85 per cent of the growth coming from Asia. In terms of growth in purchasing power, global spending by the middle class may grow from US\$21 trillion in 2009 to US\$56 trillion by 2030 – and again, more than 80 per cent of this growth in demand is expected to come from Asia. This has important implications both for businesses and for policy makers. While for firms in advance countries, the new middle class demand for goods and services will offer enormous opportunities, for governments, this will put pressure on the quality of services in infrastructure and education as well as standards for political accountability.

Second, over the last two decades, the international trade in Asia was governed by the development of cross-border production networks with each country specializing in a particular stage of the production sequence.<sup>9</sup> Such production networks got developed in the machinery, automotive and electronics industries, as it incorporated large number of parts and components produced by diversified inputs and technology.<sup>10</sup> While the U.S. firms, challenged by productivity growth, used FDI as a tool and moved their labour-intensive part of production to the low-waged country of Asia, Latin America and Caribbean; Japanese firms,

---

<sup>7</sup> The Most Popular American Companies in China, by Douglas A. McIntyre, Charles B. Stockdale, 24/7 Wall St., January 3, 2012 (<http://www.foxbusiness.com/industries/2012/01/03/most-popular-american-companies-in-china/>).

<sup>8</sup> Kharas, Homi. (2010). ‘The Emerging Middle Class in Developing Countries,’ *OECD Development Centre*. The paper defines the global middle class broadly as all those living in households with daily per capita incomes of between US\$10 and US\$100 in Purchasing Power Parity terms.

<sup>9</sup> Athukorala, Prema-chandra and Yamashita, Nobuaki. (2006). ‘Production fragmentation and trade integration: East Asia in a global context’, *North American Journal of Economics and Finance*, 17(3): 233–256.

<sup>10</sup> Kimura, Fukunari and Obashi, Ayako. (2011). ‘Production Networks in East Asia: What We Know So Far’, *ADB Working Paper Series No. 320*, Tokyo: ADB Institute.

**Table 4: Chinese Defense Expenditure**

	Defense Expenditure		
	Value (billion RMB)	Value (in constant, 2011; US\$ billion)	Percentage of GDP (%)
1988	44.0	—	—
1990	49.0	19.8	2.5
1995	105	23.0	1.7
2000	184	37.0	1.9
2005	379	71.5	2.1
2010	836	136.5	2.1
2012	1,049	157.6	2.0

Source: Stockholm International Peace Research Institute (SIPRI)(<http://milexdata.sipri.org/files/?file=SIPRI+milex+data+1988-2011.xls>).

following the ‘flying geese’ development pattern and favouring trade and FDI, also moved to low-wage destinations of Asia and the Pacific.

Third, in the face of relative decline of the economic influence of the U.S., the European powers and Japan, China emerged as a rising power in economic, political and military terms. In 2010, China overtook Japan as the world’s second largest economy (after the U.S.). Its per capita income growth rose from 6.7 per cent in 1999 to 8.8 per cent in 2011. The country is undergoing massive urbanisation with 50.5 per cent of population living in urban areas compared to 34.9 per cent in 1999. With increasing share in FDI and trade, it was increasingly becoming clear that China’s policies of ‘reform and opening-up’, pushed by its leader Deng Xiaoping, was bearing fruit. Many also noted a steady rise in China’s defence expenditure (Table 4).

All these have serious implications for not only the neighbouring countries of ASEAN but also the U.S. and others.

### **3. ASEAN AND ITS FTAs**

With the undergoing developments in Asia, there have been repeated efforts by ASEAN to deepen its own economic regionalism project. To be specific, ASEAN had multiple reasons for its own economic integration

among the ten Southeast Asian economies.<sup>11</sup> Firstly, in the post-Cold war era, it has been argued that ASEAN's economic cohesion gave it a sense of regional identity and served the purpose for ASEAN as a regional organization that was necessary.<sup>12</sup> ASEAN also realised that economic cooperation among the ten small member countries will bring greater bargaining power to the region within the international community, in general, and vis-à-vis bigger economies like China, India and the U.S., in particular. Secondly, there were developments in the global economy – while regionalism was strengthening with the development of economic bloc in Europe and North America, the talks in the World Trade Organisation (WTO) negotiations have been stalling. For ASEAN, which constitutes trade dependent nations, these had major repercussions and hence it had to ensure that its interests were not ignored.<sup>13</sup> It further realised that negotiations among a small number of countries could ensure flexibility and could offer some degrees of protectionism (vis-à-vis multilateralism) so as to satisfy domestic constituencies.

Thirdly, the 1997-98 financial crisis revealed the 'public good' nature of economic cooperation in the region.<sup>14</sup> The financial crisis made it apparent that policies of one country were highly correlated with another. Hence, ASEAN felt the need to play a proactive role in ensuring regional stability and preventing re-occurrence of future financial crisis.<sup>15</sup> Finally, the objective of ASEAN Free Trade Area (FTA) and later of the ASEAN

---

<sup>11</sup> ASEAN was founded in 1967 by Indonesia, Malaysia, the Philippines, Singapore and Thailand. Since then, membership has been expanded to include Brunei in 1984, Vietnam in 1995, Laos and Myanmar in 1997.

<sup>12</sup> Ravenhill, John. (1995) 'Economic Cooperation in Southeast Asia', *Asian Survey*, Vol. 35, No. 9: 850-66.

<sup>13</sup> Hill, Hal and Menon, J. (2010) ASEAN Economic Integration: Features, Fulfillments, Failures and the Future, ADB Working Paper Series on Regional Economic Integration, No. 69.

<sup>14</sup> Naya, Seji F. and Plummer, Michael G. (2005). *The Economics of the Enterprise for the ASEAN Initiative*, Singapore: Institute of Southeast Asian Studies, pp. 360-410.

<sup>15</sup> Kawai, M (2005) 'East Asian Economic Regionalism: Progress and Challenges', *Journal of Asian Economies*, 16(1), pp. 29-55.

Economic Community (AEC), as discussed later, was to increase the region's competitive advantages as against China,<sup>16</sup> who joined WTO in 2001. A crucial step, thus, was to liberalize trade in goods and services, that was expected to raise the intra-firm trade and investment in the region. This was essential to facilitate the emerging regional production networks in Asia, where production was fragmented across multiple countries depending on its economic advantage. Moreover, the expansion of intra-regional trade was likely to give the ASEAN consumers more choice and better quality products, possibly at lower prices.

### 3.1 ASEAN Economic Community (AEC)

The ASEAN FTA (AFTA) was a key regional economic cooperation agreement in Asia until the 21<sup>st</sup> century. It came into being in 1992 with the signing of a Common Effective Preferential Tariff (CEPT) scheme that required member countries to reduce their tariff rates on a wide range of products traded within the region to 0-5 per cent. In 1999, ASEAN went further in its efforts to intensify regional integration and agreed to adopt a target of zero tariffs by 2010 for the ASEAN-6<sup>17</sup> and 2015 for Cambodia, Laos, Myanmar and Vietnam (collectively known as CLMV countries). The AFTA project was subsequently widened to include services sector liberalisation through the ASEAN Framework Agreement on Services (AFAS) in 1995 and investment liberalisation through the ASEAN Investment Area (AIA) in 1998.

AFTA, AFAS and AIA later got subsumed under ASEAN's bigger vision to create an AEC.<sup>18</sup> The objective of AEC is *"to create a stable, prosperous and highly competitive ASEAN economic region in which there is a free flow of goods, services, investment and a freer flow of*

---

<sup>16</sup> Schwartz, A. and Villinger, R. (2004), "Integrating Southeast Asian Economies", The McKinsey Quarterly, Number 1.

<sup>17</sup> ASEAN-6 refers to Brunei, Indonesia, Malaysia, the Philippines, Singapore and Thailand.

<sup>18</sup> The AEC is one of three pillars that make up the ASEAN Community as declared by ASEAN leaders in the ASEAN Concord II (or better known as the Bali Concord II). The other pillars are ASEAN Security Political Community and ASEAN Socio Cultural Community.

*capital, equitable economic development and reduced poverty and socio-economic disparities in year 2020*".<sup>19</sup> In January 2007, during the ASEAN Summit in Cebu, Philippines, the deadline to realise the AEC was brought forward by five years to 2015.<sup>20</sup> In the same year, ASEAN also adopted the AEC Blueprint that laid out a roadmap to strengthen economic integration and realise the goals of AEC by 2015.<sup>21</sup> An AEC scorecard was developed to track the implementation of measures and the achievement of milestones committed over four periods – 2008-09, 2010-11, 2012-13 and 2014-15.

Concurrently, the ASEAN member states adopted a more holistic approach to free flow of goods and investment in the region. They signed the ASEAN Trade in Goods Agreement (ATIGA) in 2009 that consolidated all provisions in CEPT-AFTA and other protocols related to trade in goods into one single legal instrument. ATIGA entered into force in 2010 and superseded CEPT-AFTA. ASEAN also adopted the ASEAN Comprehensive Investment Agreement (ACIA) in 2012, which is a comprehensive agreement covering liberalisation, protection, facilitation and promotion and includes new provisions as well as improvements to AIA and ASEAN Investment Guarantee Agreement provisions (ASEAN-IGA).

Despite starting the process twenty years back, the economic integration in ASEAN is said to be limited. According to the AEC scorecard,<sup>22</sup> published by the ASEAN Secretariat in March 2012, the

---

<sup>19</sup> ASEAN Secretariat (2003), Declaration of ASEAN Concord II (Bali Concord II), Bali, 7 October 2003.

<sup>20</sup> ASEAN Secretariat (2007), Cebu Declaration on the Acceleration of the Establishment of an ASEAN Community by 2015, Cebu, Philippines, 13 January 2007.

<sup>21</sup> ASEAN Secretariat (2008), ASEAN Economic Community Blueprint, Jakarta.

<sup>22</sup> The AEC scorecard is expected to track the implementation of measures and the achievement of milestones committed in the AEC Strategic Schedule. It is aimed at identifying specific actions that must be undertaken by ASEAN collectively and its Member States individually to establish AEC by 2015. It should be noted that currently the AEC Scorecard is only a compliance tool and not a mechanism for impact assessment.

member countries of ASEAN, on an average, have implemented 68.2 per cent of their targets for the 2008–11 period.<sup>23</sup> A more updated number of 77.5 per cent was announced at the 22nd ASEAN Summit in April 2013. While tariffs have been reduced, non-tariff barriers (NTBs) are still prevalent in the region. These include both border barriers such as import quotas and anti-dumping actions as well as behind-the-border measures such as technical, administrative, infrastructure and safety regulations. Although the services trade liberalization underwent several rounds of negotiation, regional free flow of services remains restricted.<sup>24</sup> Among the four modes of supply of services trade – cross-border supply (mode 1), consumption abroad (mode 2), commercial presence (mode 3), and movement of natural persons (mode 4), modes 3 and 4 are the most sensitive areas for the member countries. To overcome the challenge, ASEAN has embraced a flexible approach of ‘ASEAN minus X’ to accommodate ASEAN member countries that are unable to move at the same pace. ASEAN’s investment agreements were criticized for its long list of exclusions, but lately there were some improvements. All these issues get further aggravated as ASEAN involves countries from different developmental brackets and decisions and implementation are carried out by individual member countries, rather than by a supranational institution like the E.U.<sup>25</sup>

### 3.2 ASEAN+1 FTAs

Besides ASEAN’s own economic integration process, the grouping is also actively pursuing FTA negotiations with Australia-New Zealand (known as CER- Closer Economic Relation), China, India, Japan and South

---

<sup>23</sup> ASEAN Secretariat (2012), ASEAN Economic Community Scorecard: Charting Progress towards Regional Economic Integration Phase I (2008-09) and Phase II (2010-11).

<sup>24</sup> Economic Research Institute for ASEAN and East Asia (ERIA) (2012), Mid-Term Review of the Implementation of AEC Blueprint: Executive Summary.

<sup>25</sup> Severino, R and Menon, J. (2013), ‘Overview’, in Sanchita Basu Das, Jayant Menon, Omkar L. Shrestha and Rodolfo Severino (Eds.), *The ASEAN Economic Community: A Work in Progress*, Singapore: ISEAS, pp. 1-30.

Korea (hereon mentioned as only Korea). This is because in addition to the intra-ASEAN trade in goods, which is limited to around 25 per cent of total ASEAN's trade, extra-ASEAN trade with China or Japan is equally important (*Table 5*). These five ASEAN+1 FTAs were also enacted to strategically place ASEAN as a 'hub' of FTAs in the broader Asian region.

A key characteristic of these ASEAN+1 FTAs is their comprehensive nature. While most of them are termed as FTA (like ASEAN-China FTA), ASEAN-Japan agreement is known as Comprehensive Economic Partnership (CEP). In addition to liberalisation measures, these FTAs comprise of trade and investment facilitation, competition policy, mutual recognition agreements, economic and technical cooperation, among others. Because of the different levels of economic development among member countries, economic and technical cooperation assumes special importance in these regional FTAs.

However, specific features differ among these FTAs, depending on a country's interest. For instance, Japan may look for trade and investment liberalisation and facilitation, as such measures would provide free, transparent and stable business environment for Japanese firms that participate in production networks in Asia. Similarly, while Singapore, Japan and Korea may push for intellectual property right, developing

**Table 5: ASEAN's Trade by FTA Partners, 2012 (US\$ billion)**

	<b>Exports</b>	<b>Imports</b>	<b>Total Trade</b>
ASEAN	323.5 (25.8)	277.4 (22.7)	600.9 (24.3)
Australia	45.8 (3.7)	23.8 (1.9)	69.6 (2.8)
China	141.5 (11.3)	177.0 (14.5)	318.5 (12.9)
India	43.8 (3.5)	27.7 (2.3)	71.5 (2.9)
Japan	126.3 (10.1)	136.1(11.2)	262.4 (10.6)
Korea	54.9 (4.4)	76.0 (6.2)	130.9 (5.3)
New Zealand	5.6 (0.4)	3.6 (0.3)	9.2 (0.4)
Total ASEAN	1254 (100)	1221 (100)	2475 (100)

*Note: the numbers in the bracket denote share in percent.*

*Source: ASEAN Secretariat (Statistics Publication)*

countries of ASEAN, China and India may have less interest in the protection system. India could be more keen on liberalising services trade, for example, IT software, legal, financial and medical services, compared to opening up its goods sector. This leads to significant differences between the ASEAN+1 FTAs.

The ASEAN+1 FTAs are signed and negotiated over different points in time. Each ASEAN+1 FTA differs in the way of negotiation and economic coverage (*Table 6*). It has also been found that while the liberalisation under trade in goods for some of the FTAs is not high enough, trade in services has only small ‘WTO-plus’ components and trade facilitation remains generic for most of these ASEAN+1 FTAs.<sup>26</sup>

Looking more closely into the trade in goods liberalisation initiative, for the current ASEAN FTA, while six ASEAN states have committed to eliminate tariffs for more than 90 per cent of the products (on average), the rest have committed to between 80-90 per cent (*Table 7*). For the FTA partners, other than India, all have committed to eliminate more than 90 per cent of tariff lines vis-à-vis ASEAN. Moreover, the end-year for each ASEAN+1 FTAs is different (*Table 8*).

Rules of Origin (ROO) is another area under any FTA that has a significant impact on the private sector. Most of the ASEAN+1 FTA follow Regional Value Content (RVC) that requires a minimum 40 per cent regional value content (cumulated from parties of the agreement) or Change in Tariff Classification (equivalent to CTC at 4-digit level)<sup>27</sup> as the general rule. But there are other rules too like Wholly Obtained (WO) and Specific Process Rule (SPR) (*Table 9*).

Attached with the varying ROOs is also the administration system (issuing authority of certificate of origin and application method), which varies across the states of East Asia. While for some countries, the issuing authority is the customs agency, other countries use third-party certification (such as through the chambers of commerce) or government

---

<sup>26</sup> Fukunaga, Y. and I. Isono. (2013). ‘Taking ASEAN+1 FTAs towards the RCEP: A Mapping Study’, *ERIA Discussion Paper Series* (ERIA-DP-2013-02).

<sup>27</sup> The inputs from non-member parties are sufficiently transformed in production, thereby acquiring a change in classification in the output according the HS Code.



**Table 6: Economic Coverage of ASEAN+1 FTAs**

	AANZFTA 2009	ACFTA 2002	AIFTA 2009 (G)	AJCEP 2008	AKFTA 2006
Signed	2009	2002	2009 (G)	2008	2006
Date of Entry into Force (EIF)	January 2010 (G, S, I)	July 2005 (G), July 2007 (S), Feb 2010 (I)	January 2010 (G)	December 2008	June 2007 (G), May 2009 (S), Sept 2009 (I)
Negotiation Approach	Comprehensive Single Undertaking	Sequential	Sequential	Single Undertaking	Sequential
Total Population, million, 2012	645	1971	1845	745	668
Total GDP, US\$ billion, 2012	4038	10,548	4168	8287	3456
Total Trade, US\$ billion, 2012	3065	6339	3258	4156	3539

Note: AANZFTA – ASEAN- Australia New Zealand FTA; ACFTA – ASEAN-China FTA; AIFTA – ASEAN-India FTA; AJCEP – ASEAN-Japan Comprehensive Economic Partnership; AKFTA – ASEAN- Korea FTA

G: Goods, S: Services and I: Investment

Single Undertaking: Virtually every item of the negotiation is part of a whole and indivisible package and cannot be agreed separately.

Sequential: A leading country decides whether to negotiate sequentially with only a subset of countries or simultaneously with all countries

Source: Author's compilation from various sources

**Table 7: Tariff Elimination Coverage (in %) by Country under ASEAN+1 FTAs**

	AANZFTA	ACFTA	AIFTA	AJFTA	AKFTA	Average
Brunei	99.2	98.3	85.3	97.7	99.2	95.9
Cambodia	89.1	89.9	88.4	85.7	97.1	90.0
Indonesia	93.7	92.3	48.7	91.2	91.2	83.4
Laos	91.9	97.6	80.1	86.9	90.0	89.3
Malaysia	97.4	93.4	79.8	94.1	95.5	92.0
Myanmar	88.1	94.5	76.6	85.2	92.2	87.3
Philippines	95.1	93.0	80.9	97.4	99.0	93.1
Singapore	100	100	100	100	100	100
Thailand	98.9	93.5	78.1	96.8	95.6	92.6
Vietnam	94.8	n.a.	79.5	94.4	89.4	89.5
Australia	100					
China		94.1				
India			78.8			
Japan				91.9		
Korea					90.5	
New Zealand	100					
Average	95.7	94.7	79.6	92.8	94.5	

Notes: HS2007 version, HS 6-digit base. Data on Viet Nam under the ASEAN-China are missing. Data on Myanmar under the ASEAN-China FTA are also missing for HS01-HS08  
Source: Fukunaga and Isono (2013).<sup>28</sup>

<sup>28</sup> Fukunaga, Y. and I. Isono. (2013). 'Taking ASEAN+1 FTAs towards the RCEP: A Mapping Study', *ERIA Discussion Paper Series* (ERIA-DP-2013-02).

**Table 8: Tariff Elimination Target Years under the ASEAN+1 FTAs<sup>29</sup>**

	ASEAN 6		CLMV Countries		FTA Partners	
	Elimination (Normal Track or SL)	Other Reduction (SL or HSL)	Elimination (Normal Track or SL)	Other Reduction (SL or HSL)	Elimination (Normal Track or SL)	Other Reduction (SL or HSL)
AANZFTA	2020-2025	2020-2025	2020-2024	2025	2020	—
ACFTA	2012 <sup>1</sup>	2018	2018 <sup>1</sup>	2018	2012 <sup>1</sup>	2018
AIFTA	2017-2020 <sup>3</sup>	2017-2020	2022 <sup>3</sup>	2022	2017 <sup>3</sup>	2020
AJFTA	2018	2018-2024	2023-2026	2026	(2020 <sup>4</sup> ) 2018	2018
AKFTA	2012 <sup>5</sup> (2017 <sup>6</sup> )	2016	2018-2020 <sup>5</sup>	2021-2024	2010	2016

Notes: 1 Including Normal Track 2. Normal Track 1 for ASEAN6 and China has completed in 2010.

2 In AIFTA, each year corresponds to 31 December of the previous year. For example, 2014 means 31 December 2013.

3 Including Normal Track 2.

4 To the Philippines.

5 Including Normal Track 2. Normal Track 1 for ASEAN5 has completed in 2010.

6 Thailand

Source: Fukunaga and Isono (2013).

<sup>29</sup> Columns for “Elimination” show the target years for tariff elimination to reach the elimination coverage ratios summarized in Table 7.

**Table 9: Basic Methods of Origin Determination**

<b>Agreement</b>	<b>Methods of Determining Origin</b>	<b>General Rule</b>
ATIGA	WO, RVC, CTC, SPR	RVC (40) or CTH
AANZFTA	WO, RVC, CTC, SPR	RVC (40) or CTH
ACFTA	WO, RVC, SPR	RVC (40)
AIFTA	WO, 35% RVC + CTSH	35% RVC + CTSH
AJFTA	WO, RVC, CTC, SPR	RVC (40) or CTH
AKFTA	WO, RVC, CTC, SPR	RVC (40) or CTH

*Note: ATIGA- ASEAN Trade in Goods Agreement*

*Source: Medalla, 2011*

certification (*Table 10*). The mode of the application process also varies between nations. Some countries like Singapore and Korea rely on electronic systems administered by private sector bodies, while others use a paper-based system administered by public institutions.

### *3.3 Individual ASEAN Member Countries Bilateral FTAs*

While remaining committed to the trade liberalisation process under AFTA and ASEAN+1 FTAs, the Southeast Asian countries have also signed bilateral FTAs with distant partners like the U.S., South Asia, the Middle East and the Australia- New Zealand markets (*Table 11*). Among the ASEAN member countries, Singapore has the largest number of FTAs that are in effect currently. This is followed by Malaysia and Thailand, who have enacted twelve FTAs each. Cambodia and Myanmar have the least FTAs of six each and these are being part of ASEAN.

There are varied political economy reasons for the individual ASEAN countries to initiate bilateral FTAs.<sup>30</sup> While market access has been a key motive for all of these countries, some view FTAs as an instrument to undertake domestic reforms. The governments pursue an FTA policy so as to avoid trade diversion caused by formation of trade blocs elsewhere in the world. In addition, there are political and security imperatives to cement long-term strategic alliances with major powers and trading

---

<sup>30</sup> Basu Das, Sanchita and Chongvilaivan, Aekapol. (2010) 'Rationale for free trade agreements in Southeast Asia' in Rajah Rasiah and Johannes Dragsback Schmidt (ed), *The New Political Economy of Southeast Asia*, Edward Elgar, pp. 257-78.

**Table 10: Issuing Authority of Certificate of Origin**

<b>Country</b>	<b>Issuing Authority</b>	<b>Country</b>	<b>Issuing Authority</b>
Brunei	Ministry of Foreign Affairs and Trade	Australia	Australian Chamber of Commerce and Industry Australian Industry Group
Cambodia	Ministry of Commerce	China	China Customs (General Administration) China Council for the Promotion of International Trade / China Chamber of International Commerce
Indonesia	Ministry of Trade (Directorate General of International Trade)	India	Export Inspection Council of India or any other agency authorized by the Government of India in accordance with laws and regulations
Laos	Ministry of Commerce (Directorate of Import and Export (Office No. 1)	Japan	The Ministry of Economy, Trade and Industry (Japan Chambers of Commerce and Industry)
Malaysia	Ministry of International Trade and Industry (Trade Services Division)	Korea	Korea Customs Service, Korea Chamber of Commerce and Industry (KCCI) or any other agency authorized by the Government of Korea

Myanmar	Ministry of Commerce (Directorate of Trade)	New Zealand	Auckland Regional Chamber of Commerce and Industry Canterbury Employers Chamber of Commerce Otago Chamber of Commerce Independent Verification Services Ltd Wellington Employers' Chamber of Commerce
Philippines	Bureau of Customs (Export Coordination Division)		
Singapore	Singapore Customs (Documentation Specialist Branch)		
Thailand	Ministry of Commerce (Department of Foreign Trade, Bureau of Trade Preference Development)		
Vietnam	Ministry of International Trade (Management Office of Import-Export Administration Office)		
Self Certification accepted	All members by 2012 Started Nov 2010: Brunei, Malaysia and Singapore		

Source: Medalla, 2011<sup>31</sup>

<sup>31</sup> Medalla, E.M. (2011), 'Taking Stock of the ROOs in the ASEAN+1 FTAs: Toward Deepening East Asian Integration', *PIDS Discussion Paper Series No. 2011-36*.

**Table 11: FTA Status of Individual ASEAN Economies, 2013**

	Proposed	Under Negotiation		Signed but not in effect	Signed and in effect	Total
		Framework Agreement Signed	Negotiation Launched			
Brunei	6	2	2	0	8	18
Cambodia	4	0	2	0	6	12
Indonesia	6	1	6	2	7	22
Laos	4	0	2	0	8	14
Malaysia	7	1	6	1	12	27
Myanmar	4	1	2	0	6	13
Philippines	7	0	2	0	7	16
Singapore	6	1	10	2	19	38
Thailand	8	3	6	0	12	29
Vietnam	4	1	6	0	8	19

*Note: the data is as of July 2013*

*Source: Free Trade Agreement Database, Asia Regional Integration Center (ARIC)*

partners. The individual ASEAN governments are also eager to raise their overall diplomatic status by pursuing trade diplomacy.

With such number of FTAs and their varied rationale, it is increasingly getting difficult to track their contents or features regularly. Nevertheless, there are studies that provide details on the nature of ASEAN FTAs over a period of time.<sup>32, 33</sup> Among all the FTAs that have been launched in ASEAN since 2001, the ones that have been currently in force are those of Singapore, Malaysia, Thailand and the region-wide initiatives of ASEAN. Other than these, most of the trade activities are either at the stage of being studied or are being currently negotiated. Thus, the likely content and depth of many of these agreements and their possible impacts on regional and global trading patterns cannot be comprehended fully. It is also observed that the FTA initiatives in ASEAN member countries ranges from that of limited FTAs on trade in goods to that of highly comprehensive agreements, like those of Singapore, that cover trade in goods and services, investments, elimination of NTBs, besides including other complex issues of government procurement, competition policy and intellectual property protection, thus making it a WTO-Plus FTA.

Further, varieties of ROOs have been applied or are being currently negotiated across these FTAs. It is observed that while the value-added (VA) rule is generally applied across Singapore's FTAs, a mix of other criterion such as the change in tariff classification (CTC) and other product-specific rules have also been applied. Finally, it is evident that there is lot of overlap among the FTA partners of ASEAN and the individual member countries. For example, while Singapore has already implemented its agreements with New Zealand, Australia, China, India, Korea and Japan, it is also a member in ASEAN-wide FTA initiatives with these countries. There are increasing concerns that the absence of a common framework across these FTAs may negate the maximum gain

---

<sup>32</sup> Sen, R. (2007), 'Bilateral Trade and Economic Cooperation Agreements in ASEAN: Evolution, Characteristics, and Implications for Asian Economic Integration,' *ISEAS Working Paper in Economics and Finance*, No.1.

<sup>33</sup> Kawai, M and Wignaraja, G, (2011) 'Main Findings and Policy Recommendations' in Masahiro Kawai and Ganesh Wignaraja (Ed), *Asia's Free Trade Agreements: How is Business Responding?*, ADB, ADBI and Edward Elgar, pp. 33-75.



for the region. There could be further negative implications like higher costs of doing business and discriminatory trade due to the ‘noodle bowl’ effect of regulations.<sup>34</sup> However, there is a possibility that stronger strategic links may override these concerns.

It has been estimated that the share of trade that is covered by FTAs in overall trade (i.e. the FTA coverage ratio) was significantly high at 60 per cent for ASEAN countries in 2011. This is compared to 16.2 per cent for China, 18.6 per cent for Japan and 34.0 per cent for Korea.<sup>35</sup> Despite this, utilisation rate of FTAs remains low. In a survey of 841 export-oriented firms by the Asian Development Bank Institute (ADBI),<sup>36</sup> it was found that while Chinese firms have relatively higher usage rate at 45 per cent, Japanese and Korean firms are at 29 and 21 per cent respectively. Among the ASEAN countries, fewer firms make use of the FTAs – Thailand (25 per cent), the Philippines (20 per cent) and Singapore (17 per cent). Companies reported that the reasons for not using FTAs include lack of information, low margin of preference, prevalence of NTBs, exclusion list, multiple ROOs and administrative costs.

### *3.4 Region-wide FTA: Regional Comprehensive Economic Partnership (RCEP)*

Realising the challenges of multiple FTAs, whilst acknowledging the benefits for a comprehensive region-wide initiative,<sup>37</sup> leading to a unified market, a decision was reached during the 19<sup>th</sup> ASEAN Summit

---

<sup>34</sup> Baldwin, R. (2006), “Managing the Noodle Bowl: The Fragility of East Asian Regionalism,” *Centre for Economic Policy Research (CEPR) Discussion Paper*, No. 5561.

<sup>35</sup> JETRO. JETRO Global Trade and Investment Report Overview 2012 ([http://www.jetro.go.jp/mexico/topics/20121222331-topics/JETRO\\_Global\\_Trade\\_and\\_Investment\\_Report\\_2012.pdf](http://www.jetro.go.jp/mexico/topics/20121222331-topics/JETRO_Global_Trade_and_Investment_Report_2012.pdf); accessed on 21 January 2014).

<sup>36</sup> Kawai, M. and G. Wignaraja (ed.), “Asia’s Free Trade Agreements: How is Business Responding?” Asian Development Bank, the ADB Institute with Edward Elgar Publishing, 2011.

<sup>37</sup> Itakura, K (2012), ‘Impact of Liberalisation and Improved Connectivity and Facilitation in ASEAN for the ASEAN Economic Community Mid Term Review’, (*mimeo*). ERIA. According to the study, the RCEP, when occurs, is expected to bring in the most benefits to national outputs of ASEAN Member Countries.

in November 2011 to establish an FTA involving sixteen countries – ten ASEAN member countries, China, Japan, Korea, India, Australia and New Zealand – under the framework of RCEP. The objective of RCEP, thus, is to attain a comprehensive and mutually beneficial economic partnership agreement that is WTO-consistent and transparent and is expected to involve deeper engagement between ASEAN and its FTA partners (and subsequently with other external economic partners).<sup>38</sup> During the November 2012 Summit, the Leaders of ASEAN+6 endorsed the guiding principles,<sup>39</sup> which lists eight negotiation areas – trade in goods, trade in services, investment, economic and technical cooperation, intellectual property, competition, dispute settlement, among others and aims for significant improvements over the existing ASEAN+1 FTAs. The document further mentions that the agreement will give due consideration to the different levels of development among its members. The Leaders decided to launch the negotiation in May 2013 in Brunei, with the likelihood of completion by the end of 2015.

Besides offering a comprehensive and mutually-benefitting FTA, RCEP is set to play other functions in the Asia-wide region.<sup>40</sup> RCEP, as led by ASEAN, is expected to entrench its ‘centrality’ in a wider Asia-Pacific regional architecture. ‘Centrality’ assumes that ASEAN, instead of the bigger economies like those of China, Japan, the U.S. or India, should be the hub of developing a wider Asia-Pacific regional architecture. This was challenged amidst the rapid pace of regional economic cooperation arrangements evolving in the region, mainly the U.S.-led Trans-Pacific Partnership (TPP) that was announced during the APEC Summit in 2011. RCEP is expected to demonstrate ASEAN’s leadership in bringing together its own ten members and external partners for economic growth, development and harmonisation. Moreover, RCEP, based on ‘ASEAN++’ formula is viewed as a good compromise between

---

<sup>38</sup> ASEAN Framework for Regional Comprehensive Economic Partnership (<http://www.asean.org/news/item/asean-framework-for-regional-comprehensive-economic-partnership>; accessed on 21 January 2014).

<sup>39</sup> Guiding Principles and Objectives for Negotiating the Regional Comprehensive Economic Partnership, (<http://www.iadb.org/intal/intalcdi/PE/CM%202013/11581.pdf>; accessed on 21 January 2014).

<sup>40</sup> Sanchita Basu Das (2012) ‘RCEP: Going Beyond ASEAN+1 FTAs’, ISEAS Perspective, 17 August 2012.

East Asia FTA (EAFTA), which was based on ASEAN+3 formula and was favoured by China, and Comprehensive Economic Partnership in East Asia (CEPEA), which was based on ASEAN+6 and was favoured by Japan. These are discussed in more detail in the subsequent section on *Strategic Role for RCEP*.

Economically, if successfully done by 2015, RCEP as a grouping is likely to generate a GDP of US\$ 28 trillion (approx 30 per cent of the world), covering about 3.5 billion people (48 per cent of the world).<sup>41</sup> In 2012, the RCEP grouping accounted for 28.4 per cent (US\$10.5 trillion) of world trade, after APEC at 48.5 per cent (US\$ 17.1 trillion) and the E.U. at 33 per cent (US\$ 11.7). The twelve TPP countries that are currently negotiating the agreement accounted for 26 per cent (US\$9.5 trillion) of the world trade in 2012. According to an Economic Research Institute of ASEAN and East Asia (ERIA) study,<sup>42</sup> the RCEP is expected to bring in the most benefit to the national outputs of ASEAN Member Countries (*Figure 1*). While ASEAN+1 FTAs create higher economic impacts than ASEAN's own FTA (except for Laos), the impact may go down with the additional CJK FTA.

Till the end of April 2014, RCEP concluded four rounds of its negotiation. While the first round of negotiation started in May 2013 in Brunei, the second round was held in Brisbane, Australia, in September 2013, the third round in Kuala Lumpur, Malaysia and the fourth round was in Nanning, China in April 2014. The negotiations included the RCEP-Trade Negotiating Committee (TNC) meeting and the meeting of the three Working Groups, namely the trade in goods (RCEP-WGTIG), trade in services (RCEP-WGTIS) and investment (RCEP-WGI). The first round finalised the scoping papers for the three working groups. Subsequently, non-papers<sup>43</sup> on intellectual property rights and competition

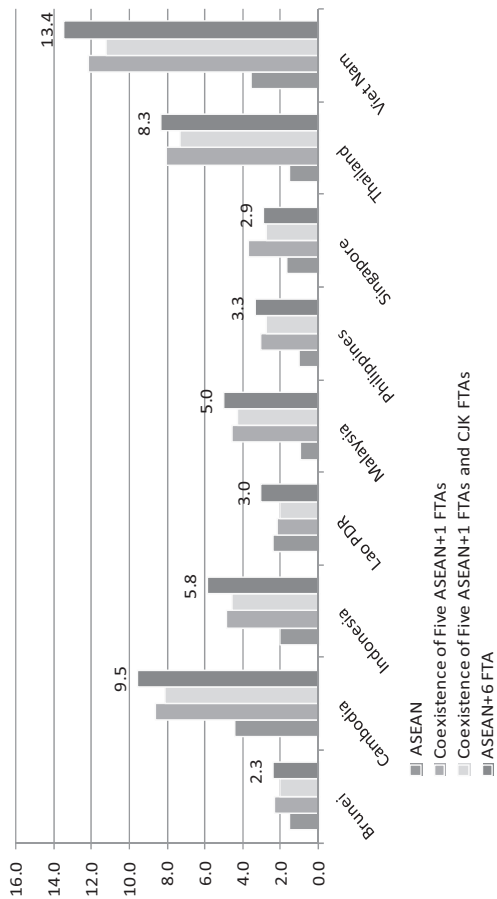
---

<sup>41</sup> World Economic Outlook Database, International Monetary Fund, October 2013.

<sup>42</sup> Mid-Term Review of the Implementation of AEC Blueprint: Executive Summary, Economic Research Institute for ASEAN and East Asia (ERIA), Jakarta, October 2012.

<sup>43</sup> In international relations, a non-paper is a proposed agreement or negotiating text circulated informally among delegations for discussion without committing the originating delegation's country to the contents. It has no identified source, title, or attribution and no standing in the relationship involved.

**Figure 1: Potential Impact of RCEP Measures on ASEAN Member Countries' GDP (percentage point, accumulated from 2011 to 2015)**



Note: NA for Myanmar due to data availability  
 Source: Dynamic GTAP Simulation by Itakura (2012)<sup>44</sup>

<sup>44</sup> Itakura, K (2012), 'Impact of Liberalisation and Improved Connectivity and Facilitation in ASEAN for the ASEAN Economic Community Mid Term Review', (mimeo). ERIA.

policy, economic and technical cooperation and dispute settlement have been submitted by Japan, ASEAN and Korea respectively, following which four more working groups have been created in these areas. During the fourth round of negotiations in China continuing with the discussion on the scope and method of negotiations, the round also decided to establish sub-working groups on Sanitary and Phytosanitary Measures, as well as on Standards, Technical Regulations and Conformity Assessment Procedures. The next round of negotiations will be held in Singapore from 23 to 27 June 2014.

Although the RCEP negotiations had a good start, it is noticeable that this is not going to be a smooth process, but will have many economic and political obstacles. Being a regional economic integration arrangement among developing countries, RCEP is the first of its kind and has no precedence to emulate. RCEP involves three different dynamics among its sixteen members – ten ASEAN members, ASEAN and FTA partners and six FTA partners. While the ten members of ASEAN have pledged to work on economic integration since the 1990s, ASEAN and its member countries have been working with the FTA partners since 2000. It is the six FTA partners that may not have existing comprehensive trade agreement with one another (*Table 12*). The China-Japan-Korea tripartite FTA (CJK FTA), that launched its negotiation in March 2013, holds special significance in this respect. Since the three North-eastern states account for a dominant share of gross domestic product (share of CJK GDP is 72.2 per cent in RCEP total) and trade in East Asia (intra-regional trade in CJK is around 21 per

**Table 12: Status of FTAs between RCEP Members**

	ASEAN	Australia	N. Zealand	China	India	Japan	Korea
Australia	S/E	—	S/E	S	N	N	N
N. Zealand	S/E	S/E	—	S/E	N	P	N
China	S/E	S	S/E	—	P	N	N
India	S/E	N	N	P	—	S/E	S/E
Japan	S/E	N	P	N	S/E	—	P
Korea, Rep.	S/E	N	N	N	S/E	P	—

*S – Signed, S/E – Signed and in Effect, N- Negotiation Launched, P – Proposed and Under Study*

*Source: Author’s compilation; Asia Regional Integration Centre (ARIC), ADB.*

cent compared to 44 per cent under RCEP), the successful establishment of the RCEP depends on the conclusion of CJK FTA negotiation. However, political tensions over historical conflicts and unsettled territorial disputes over the Senkaku or Diaoyu islands and Dokdo or Takeshima islet are adding difficulties in discussion of a tripartite cooperation. As for India, although it has been viewed as a rising economic power, its position in multi-party trade negotiations remains rather conservative. It has been branded a hardliner with a ‘defensive strategy’.<sup>45</sup>

RCEP negotiations are also challenged by the differences in developmental stages and accordingly differences in interest among the negotiating partners. Although there is a flexibility clause built into the RCEP framework, it could be a boon or bane for RCEP.<sup>46</sup> While it could help break deadlocks and protect disparate national interests, it could also limit change or curtail progress in achieving greater liberalisation.

Although policy makers thought of RCEP as a means to consolidate the current FTAs, they vary considerably from each other (as discussed earlier), leading to concerns over modality and the eventual quality of the agreement. Pursuing harmonisation, consensus and flexibility at the same time could result in a lowest common denominator rule. This goes against RCEP’s principle of ‘modern, comprehensive, high-quality and mutually beneficial FTA’. As a result, negotiators are looking at different options to avoid significant damages.

## **4. TPP VS RCEP – THE DEBATE CONTINUES**

One FTA that has attracted attention since September 2008 when the U.S. under President George W. Bush announced its intention to join the Pacific 4 (P4) Agreement is the TPP Agreement.<sup>47</sup> It is a major part of

---

<sup>45</sup> Preeti Ramdasi, ‘An Overview of India’s Trade Strategy’, IDDRI SciencesPo, No. 01/2010 March.

<sup>46</sup> Jay Menon, ‘The challenge facing Asia’s Regional Comprehensive Economic Partnership’, 23 June 2013, East Asia Forum.

<sup>47</sup> Brunei, Chile, New Zealand, and Singapore originally established the Trans-Pacific Strategic Economic Partnership (commonly known as the P4) agreement in 2006.

American foreign policy of ‘pivot to Asia’ or ‘rebalancing’ of priorities, looking at the emerging economic dynamics of Asia and its efforts in regionalism.

During the APEC Summit of 2011, a history in trade diplomacy was created by launching a framework of the Trans-Pacific Partnership (TPP) Agreement with nine Asia-Pacific economies – Brunei, Chile, New Zealand, Singapore, Australia, Malaysia, Peru, the United States, and Vietnam. The negotiations were joined by Canada and Mexico in December 2012. Japan expressed its definitive interest to join the TPP negotiations in March 2013, and eventually became part of TPP negotiating team in July 2013. These twelve economies together, in 2012, constituted 39 per cent (US\$28.1 trillion) of the world GDP, 26 per cent of the world trade (US\$9.6 trillion) and 11 per cent (792 million) of the world population. Negotiators envisioned the TPP to be a ‘comprehensive and high-quality’ FTA that would liberalise trade in goods and services, encourage investments, promote innovation, economic growth and development and support job creation and retention.

The TPP is said to have twenty-five plus chapters, including topics like market access for goods and services, agriculture, financial services, telecommunication, Intellectual Property Rights (IPR), Rules of Origin (ROO), Technical Barriers to Trade (TBT), sanitary and phyto-sanitary standards (SPS), foreign investment, competition policy, trade remedies, transparency in health care technology and pharmaceutical, labour, environment, regulatory coherence, government procurement, state owned enterprises (SOEs), e-commerce, small and medium scale enterprises, secretariat, dispute settlement and few others. This way the agreement strives to create a “21st -century agreement” that addresses new and cross-cutting issues evolving in an increasingly globalized world.

Currently, twenty-one rounds of negotiation have been completed. Although TPP was said to be launched in December 2013, it missed its deadline. It is important to note that the TPP is not only advantageous to the U.S. from trade and foreign policy perspectives, but is also tied to its domestic concerns. If successful, the Obama administration can secure applause through efforts at domestic job creation. But it is uncertain how the U.S. Congress will vote on this matter. Republicans are likely to oppose any deals approved by President Obama, regardless of whether

the impact is positive or negative. Additionally, labour unions are not generally keen on FTAs. A case in point would be the U.S.-Korea FTA which had to be re-negotiated to satisfy the demands of the Congress.

There is an ongoing debate on whether the mega-trade deals – TPP and RCEP – are competing or complementary. As the agreements are still at the negotiation stage, it is difficult to say anything definitively.

Like mentioned before, RCEP, driven by ASEAN, is an FTA between ASEAN and ASEAN’s FTA partners – Australia-New Zealand, China, South Korea, Japan and India. RCEP is expected to be concluded by end-2015 and will demonstrate to be a region accounting for almost half of the global market and about a third of global economic output (*Table 13*). It is based on an open accession clause and welcomes participation of any ASEAN FTA partner that wishes to participate later. TPP, on the other hand, is a U.S. led process and is pushed forward as a ‘WTO-plus approach’.<sup>48</sup> Twelve countries, of which China and India are not a part,

**Table 13: Comparing the Regional Initiatives**

	GDP (nominal, US\$ trillion)		GDP (PPP, US\$ trillion)	Population (billion)		Total merchandise Trade (US\$ trillion)
	2012	2015*	2012	2012	2015*	2012
RCEP	21.2 (29)	23.7 (29.1)	27.8 (32.0)	3.4 (48.0)	3.5 (48.6)	10.5 (28.4)
TPP	28.1 (39.0)	30.4 (37.4)	27.0 (31.0)	0.8 (11.0)	0.81 (11.3)	9.5 (26.0)

*Note: the numbers in the parenthesis give the percentage to the world; \* implies IMF forecast.*

*Source: World Economic Outlook, IMF, October 2013 database; World Trade Organisation Database; author’s calculation*

<sup>48</sup> <http://www.ustr.gov/about-us/press-office/fact-sheets/2011/november/united-states-trans-pacific-partnership> (accessed on January 1, 2013).



are negotiating TPP. The US has encouraged other APEC countries to join the negotiations.

RCEP is expected to be built on ASEAN's experience and is likely to bring together all five of the ASEAN+1 FTAs into an integrated regional economic framework.<sup>49</sup> Being an ASEAN process, it would be guided by the 'ASEAN way' where objectives and commitments would be driven by a consensus decision process. RCEP is likely to be more accommodative to the development differences of the member countries, thus providing flexibility and adjusting mechanisms in reaching the common end-goals. In addition to liberalizing trade in goods, services and investment, it is likely to pay more attention to physical, institutional and people-to-people connectivity and narrowing development gaps, and is highly probable to be built in response to new developments such as the emerging international production networks.

On the other hand, in addition to the trade in goods, services and investment component, TPP is said to have more demanding set of commitments – intellectual property rights, labour standards, competition policy, investment rules, the environment and the role of state-owned enterprises. These issues might not have any immediate direct trade-related aspects but are marketed as issues to meet the 21st century challenges. As TPP comprises of members from different levels of economic development, it is likely to face difficulties to reach a consensus on the optimal standards. According to Petri, Plummer and Zhai,<sup>50</sup> there are four issues that are expected to be highly controversial in TPP negotiations and are likely to be strongly supported by the U.S. in accordance with its strategic and economic objectives.

- Strict IPR regime – Stringent intellectual property rights laws can raise prices in developing economies, especially in healthcare, technology, entertainment, etc. With the WTO TRIPS already in place, countries may be reluctant to implement further measures.

---

<sup>49</sup> Sanchita Basu Das, "RCEP: Going Beyond Asean+1 FTAs", ISEAS Perspective, August 17, 2012.

<sup>50</sup> Peter A. Petri, Michael G. Plummer and Fan Zhai. (2011). 'The Trans-Pacific Partnership and Asia-Pacific Integration: A Quantitative Assessment', *East-West Center Working Papers*, No. 119.

- Strong Competition policy – requires competitive neutrality of State owned enterprises.
- Investor-state arbitration – several countries are said to favour this provision for issues involving foreign investments. This will allow companies to challenge government rulings in international tribunals.
- Labour standards – the US has suggested that ILO core labour standards to be enforced. In the short-run, labour standards could potentially decrease competitive capacity of the developing countries, especially for labour intensive industries

In addition to the four areas, finding a common set of rules of origin is also going to be a challenge. Moreover, liberalising the agricultural sector is highly sensitive for net agricultural importers. Government procurement is highly problematic, as only four TPP members (Canada, the U.S., Singapore and Japan) have so far acceded to the WTO agreement on government procurement. There are also exclusions and slow implementation of services trade provisions. *Table 14* summarises the key differences in RCEP and TPP's characteristics and concerns.

## **5. STRATEGIC ROLE OF THE MEGA-TRADE DEALS**

While both RCEP and TPP are seen as a stimulus to growth, they are also said to have strategic implications. This is more so because the U.S. already has bilateral trade agreements with some of the TPP negotiating members – Australia, Singapore, Mexico and Canada. It is also the same for ASEAN as it is pursuing FTA policy with all the countries since early 2000. Hence, it can be said that in addition to economics, these agreements can potentially address the security and strategic concerns of the region.<sup>51</sup>

---

<sup>51</sup> There is a body of literature that suggests a strong correlation between good economic relations and fewer political conflicts. Russett, Bruce and John R. Oneal, 2001. *Triangulating Peace: Democracy, Interdependence, and International Organizations*. New York: Norton. One of the claims of the publication is that trade raises costs of conflict and also the benefits of conflict avoidance and conflict management.

**Table 14: RCEP vs. TPP**

	<b>RCEP</b>	<b>TPP</b>
Comparisons	<p>RCEP is led by ASEAN to gather all separate non-ASEAN FTAs. Born out of ASEAN+1 FTAs with China, India, Japan, South Korea, Australia and New Zealand</p> <p>Based on open accession clause, where membership can be expanded later as they sign FTA with ASEAN.</p> <p>Negotiation started in 2013 and is expected to be concluded by 2015.</p>	<p>TPP is led by the US in line with its foreign policy objective of pivot toward Asia.</p> <p>Born out of P4 agreement between New Zealand, Brunei, Singapore and Chile in 2005.</p> <p>APEC countries have been encouraged to join negotiations; also open to accession by non-APEC members.</p> <p>Negotiation started in 2011 and after missing the deadline of December 2013, is speculated to be concluded by April 2014. It may drag into 2015 if the US President is not able to secure the Trade Promotion Authority from the Congress</p>
Characteristics	<p>Aims to form an integrated regional economic agreement that is deeper than the existing FTA co-operations and support equitable economic development.</p> <p>Includes 8 core Areas: liberalisation and facilitation measures in trade in</p>	<p>Aims to establish regional FTA that can tackle the challenges of 21<sup>st</sup> century.</p> <p>Areas include: liberalise trade in goods, services, investment, intellectual property rights, environmental protection, labour, financial services, technical</p>

	<b>RCEP</b>	<b>TPP</b>
	goods, services and investment, technical co-operation, intellectual property, dispute settlement (WTO+ issues)	barriers to trade and other regulatory issue (WTO+ issues). Other features: Market Access is bilateral and negotiation style is single undertaking
Concerns	Building on “ASEAN way” and provision of differential treatment depending on level of members’ development could contribute to slow progress. Conflict due to tension between China and the US. ASEAN+1 FTAs have different features and are at different stages of implementation.	Gold standard 21 <sup>st</sup> century FTA and addresses next generation issues (cross-cutting/ new trade challenges) – could be difficult for less developed member countries to comply. Does not include China and India May divide ASEAN as all are not participating in TPP and that may undermine ASEAN’s centrality

*Source: Author’s compilation from various sources*

### *5.1 The TPP Agreement*

*TPP: In Reaction to Asia’s Economic Rise and Asia’s Own Integration Efforts.* For the past ten years, while the U.S. was occupied with the wars in Iraq and Afghanistan, there have been significant developments in Asia: China and India have been rising, Korea and the smaller countries of ASEAN were emerging as important economic hubs, countries have been easing trade and investment restrictions to support the regional production network and China has been enlarging its military power. Given this scenario of increasing political and economic activities in Asia, it becomes crucial for the U.S. to have deeper presence and engagement

in the region. Moreover, for many observers, they see the TPP as a manifestation of discussion on Comprehensive Economic Partnership for East Asia (CEPEA; originating from the East Asia Summit (EAS)) and East Asia Free Trade Area (EAFTA; origins from ASEAN+3) since 2001, but picked up momentum after the 2008 global economic crisis. Indeed, the TPP agreement is a key component for the US 'pivot' or 'rebalancing' strategy towards Asia.

TPP, in addition to liberalisation measures, covers many rules and regulatory issues that are expected to ensure prevalence of U.S. policies in the changing dynamics of emerging markets of Asia and other TPP partners. This, on one hand, is expected to increase business opportunities of U.S. firms in four different continents of the world. On the other hand, for the Asian economies, the U.S.' presence in the region through TPP is a comforting factor, especially for the ones who have apprehensions from the rise of China.<sup>52</sup> This was observed in other regionalism efforts of East Asia. The East Asia Summit of 2005, instead of taking a geographic view of East Asia, took a functional one and included India, Australia and New Zealand. The Summit in 2011 included the U.S. and Russia as well.

Economically, for the developing middle-income countries, while the TPP agreement may increase investment from the U.S., they may also take the opportunity to undertake domestic reforms as all participating economies must abide by the set rules (like curtailing state-owned enterprises, respecting intellectual property rights and others) of the agreement. For example, after two years of dithering, Prime Minister Shinzo Abe's announcement in March 2013 of Japan's interest to participate in the TPP negotiations could be viewed as a foreign pressure to implement domestic reforms. While the first two arrows, quantitative easing and stimulus spending, are temporary in nature, the third arrow of structural reform is expected to accelerate economic growth in Japan.

*TPP: In Reaction to Slow Progress in APEC.* In the past, the U.S. has been using the Asia-Pacific Economic Cooperation (APEC) as a vehicle to maintain its economic activities in Asia. But given the limited progress in

---

<sup>52</sup> Acharya, A. (2010). 'Asia is Not One', *The Journal of Asian Studies*, 69(04): 1001-1013.

APEC's initiative of regional economic integration, TPP could be viewed as consequence of that. In 1994, the APEC Bogor Goals aimed to achieve free and open trade and investment regime in the Asia Pacific region by 2010 for industrialized economies and 2020 for developing economies. However, despite the announcement 20 years back, implementation remained incomplete. According to the progress report on 2010 APEC economies<sup>53</sup> for five developed (Australia, Canada, Japan, New Zealand and the US) and eight developing economies that volunteered (Chile, Hong Kong, Korea, Malaysia, Mexico, Peru, Singapore and Taiwan) for the evaluation, the average applied tariff rate in industrialized economies as a group was reduced only less than 50 per cent, from 7.0 per cent in 1996 to 3.9 per cent in 2008. The tariff reduction across sectors remains uneven. The same thoughts are reiterated in the APEC's Bogor Goals Progress Report in 2012.<sup>54</sup> Moreover, the diverse nature of APEC membership and soft institutional structure with non-binding commitments add further to its vulnerability.

While in 2006 the U.S. proposed the initiative of FTAAP for the 21 APEC economies, the compromises resulting from a consensus decision making process from the diverse economies both in terms of income and development are likely to lead to a low quality of APEC FTA. This works against a possible comprehensive FTAAP in the long-run. It was also felt that there are disagreements within APEC, which are difficult to resolve as they involve big power economies. For example, the disagreement between the U.S. and China over the role of State-owned Enterprises (SOEs) has prevented the negotiation to achieve its goal of liberal economic policy. Such tension leads to non-functionality of the initiatives within the organisation of APEC. In this context, the U.S.' proposal of TPP seems viable. TPP has almost the opposite of APEC's weaknesses. The TPP is currently negotiated among a small group of

---

<sup>53</sup> APEC Secretariat. 'The Report on APEC's 2010 Economies' Progress Towards the Bogor Goals', ([http://www.apec.org/~media/Files/AboutUs/AchievementsBenefits/2010/bogor\\_Report\\_AMM20101110.pdf](http://www.apec.org/~media/Files/AboutUs/AchievementsBenefits/2010/bogor_Report_AMM20101110.pdf)), 2010.

<sup>54</sup> APEC Policy Support Unit. 'APEC's Bogor Goals Progress Report', August 2012 ([http://www.apec.org/~media/Files/AboutUs/AchievementsBenefits/20120822\\_APECSBogorGoalsProgressReport.pdf](http://www.apec.org/~media/Files/AboutUs/AchievementsBenefits/20120822_APECSBogorGoalsProgressReport.pdf)).

12 countries, of which China is not a part. This, to a large extent, helps to build up a common ideology that make the institution more robust compared to APEC.

*TPP: A Tool to Contain China?* Connected to the above, there are other views too. When the U.S. intended to join TPP in 2009, many academics and policy analysts deduced that the TPP was an economic tool for the U.S. to contain China's rise in East Asia. This is because, in 2012, in terms of Purchasing Power Parity (PPP), while the U.S. was the world's largest economy (US\$15.7 trillion), China ranked number three (US\$12.4 trillion).<sup>55</sup> China homes around 19.2 per cent of world's population (7.1 billion in July 2012) compared to 17.8 per cent for India, 4.5 per cent for the U.S. and 3.5 per cent for Indonesia. In 2012, China's customs administration reported that the country's total trade in goods amounted to US\$3.87 trillion, edging out the U.S. at US\$3.82 trillion.<sup>56</sup> Hence, it becomes hard to conceive an Asia-Pacific trade agreement without China in it.

The argument got further support from those who are accustomed to hearing U.S.' criticism for unfair Chinese trade practices. As Prof. Li Xiangyang<sup>57</sup> of the Institute of Asia-Pacific Studies under the Chinese Academy of Social Sciences (CASS) says, 'The TPP is an important part of the U.S.' 'Return to Asia' strategy that is based on economic and geo-political-security considerations. China 'containment' is an undeniable target of the agreement'. Li further says that 'once TPP is instituted, APEC will be the first to be sidelined. For China, the exclusive TPP will not only bring about the 'excludability effect', but possibly reverse

---

<sup>55</sup> Central Intelligence Agency, The World Fact Book, Country Comparison: GDP (Purchasing Power Parity) (<https://www.cia.gov/library/publications/the-world-factbook/rankorder/2001rank.html>).

<sup>56</sup> In World Trade, China Edges Out The U.S., Forbes, February 10, 2013 (<http://www.forbes.com/sites/kenrapoza/2013/02/10/in-world-trade-china-edges-out-the-u-s/>).

<sup>57</sup> Li Xiangyang. (2012). 'Transpacific Partnership Agreement: A Major Challenge to China's Rise', *International Economic Review*, 2012-02 ([http://en.cnki.com.cn/Article\\_en/CJFDTOTAL-GJPP201202003.htm](http://en.cnki.com.cn/Article_en/CJFDTOTAL-GJPP201202003.htm)).

the course of the East Asian regional integration that China has been pushing for over a decade. It will constitute a major challenge to China's rise.'

Although there could be some truth in the arguments, it could be refuted too. It should be noted that the TPP agreement was not originally an U.S. agenda. It grew out of an earlier agreement of P4 between Brunei, Chile, New Zealand and Singapore in 2006. P4 had an objective of 'high-quality' agreement to liberalise trade in the Asia-Pacific region.<sup>58</sup> The P4 was negotiated from the beginning to have an accession clause so that other states can join the grouping in the future.<sup>59</sup> Moreover, due to the almost stalled progress in the WTO Doha Round and difficulties in liberalising economies under the APEC process, P4 was seen as another avenue of liberalisation among the 'like minded' partners. In September 2008, the U.S., under President George W. Bush, announced its intention to join the P4 Agreement. This was quickly followed by the announcements by Australia, Peru, and Vietnam to join the talks. This way the P4 process metamorphosed into the TPP plurilateral talks. In November 2009, President Obama announced of the U.S' engagement with the TPP countries 'with the goal of shaping a regional agreement that will have broad-based membership and the high standards worthy of a 21<sup>st</sup>-century trade agreement'.<sup>60</sup> The first round of negotiations started in March 2010 in Melbourne with eight members.<sup>61</sup> Subsequently, Malaysia, Vietnam, Canada, Mexico and Japan joined during different points in time from

---

<sup>58</sup> The P4 included chapters on liberalisation of tariff lines, services sector, ROO, customs procedures, trade remedies, SPS, TBT, competition policy, IPR, government procurement and dispute settlement. It also had some labour and environment provisions as a separate MOU.

<sup>59</sup> Article 20.6: This Agreement is open to accession on terms to be agreed among the Parties, by any APEC Economy or other State. ([http://www.fta.gov.sg/tpfta/c20\\_tpsep.pdf](http://www.fta.gov.sg/tpfta/c20_tpsep.pdf)).

<sup>60</sup> Office of the US trade Representative, Announcement by President Barack Obama, November 14, 2009 (<http://www.ustr.gov/about-us/press-office/fact-sheets/2009/december/tpp-statements-and-actions-date>).

<sup>61</sup> Australia, Brunei, Chile, New Zealand, Peru, Singapore and the US; Vietnam participated as an associate member.



2010 to 2013. This way TPP is currently being negotiated among the 12 countries of Asia-pacific. Therefore, there was nothing relevant for the U.S. to ‘contain’ China when Bush administration decided to join P4 in 2008. The TPP initiative could be seen similar as the rules of the WTO, where countries get together to follow certain guidelines and standards for fair way for conducting economic activities, thereby constraining each other from unfair international trade practices. Like Mr. Mathew Goodman, former White House coordinator for APEC and the East Asia Summit and the current William E. Simon Chair in Political Economy at the Center for Strategic and International Studies mentions, “it is true that TPP is aimed at updating the rules of the road for the regional trading system and that some of these rules are being designed with China in mind. But the motivation for creating new disciplines on state owned enterprises (SOEs) or strengthening ones on intellectual property is to create a level playing field that enables other countries to better compete with China, not to limit the latter’s growth or integration”.<sup>62</sup>

Moreover, a trade agreement like TPP cannot ‘contain’ China as other TPP members, who participate in Asia’s production network with China as a big player, may not like it.<sup>63</sup> Even the U.S. needs China to cooperate on commercial activities. The bilateral trade between China and the U.S. has expanded over the past three decades (US\$5 billion in 1981 to US\$448 billion in 2011). China is currently the US’ second-largest trading partner, its third-largest export market, and its biggest source of imports. Again, due to large population and booming middle class, China is an important market for many U.S. companies (like Walmart, Kentucky Fried Chicken, Nike, General Motors, Apple, Boeing, Coca Cola, Intel and Microsoft).

Realising this, the Chinese narrative that earlier remained hostile, moderated since early 2013. Now, the Chinese officials seem to be learning about TPP, and may be even contemplating joining it. Indeed,

---

<sup>62</sup> Mathew P. Goodman, ‘Five Myths about TPP’, Center for Strategic and International Studies, Global Economics Monthly, Volume II, Issue 4, April 2013.

<sup>63</sup> Sanchita Basu Das, Trans-Pacific Partnership a Tool to Contain China: Myth or Reality?, ISEAS Perspective, May 2013.

in the short-run, China may not be ready to implement the types of obligations getting negotiated in the TPP (like the environment issue, labour laws, SOEs, IPR regulations, higher transparency in economic activities and others). It will wait to prepare its domestic economy, before considering the U.S.-led ‘comprehensive high quality’ trade accord. This is not impossible as China carried on extensive reforms prior to joining the WTO in 2001.

*TPP: Future Security Implications.* Last but not the least, while TPP is expected to provide a broad economic framework for all participating economies, it will also establish strong international ties amongst members. Though the regional cooperation arrangement does not talk about the military aspect, it could have future security implications. As China builds its own military capacities, the U.S. and its allies, like Japan, get wary of Chinese aggression. This was observed in late 2013 when tensions in the region rose due to China’s unilateral decision to expand its Air Defense Identification Zone (ADIZ) in the East China Sea that includes territory previously claimed by Japan. In disputes such as these, it is of the U.S.’ interest to have friendly nations in the region, for whom it would be advantageous to back U.S. policies over those of China.

## 5.2 *The RCEP Agreement*

*RCEP: In Reaction to Debate over EAFTA and CEPEA.* East Asia has been thinking of a region-wide FTA as early as 2001. This was when the East Asia Vision Group (EAVG) recommended the establishment of an East Asian Free Trade Area (EAFTA) to the leaders of ASEAN+3. This picked up steam in 2004 when ASEAN+3 Economic Ministers decided to set up an expert group initiated by China to conduct a feasibility study. The joint expert group, in 2006, recommended that the economic benefits from EAFTA would exceed AFTA, any ASEAN+1 FTA, or other bilateral and sub-regional arrangements.<sup>64</sup> The report recommended that

---

<sup>64</sup> Joint Expert Group for Feasibility Study on EAFTA, Towards an East Asian FTA: Modality and Roadmap, 2006 ([http://www.thaifta.com/thaifta/Portals/0/eafta\\_report.pdf](http://www.thaifta.com/thaifta/Portals/0/eafta_report.pdf)).

an EAFTA should be comprehensive, high standard and negotiated and implemented as a single undertaking. It recommended that an EAFTA going beyond existing East Asian FTAs, be formed among ASEAN+3 countries first, and then to be extended to other countries in the region. The group urged East Asian leaders to start the process of forming an EAFTA soon. However, there was not much action on the recommendations provided in the 2006 report. In 2009, against the backdrop of 2008 global economic crisis and rapid proliferation of FTAs among the East Asian countries, Korea conducted a Phase II EAFTA study. The study recommended that EAFTA would help enhance the resilience of the East Asian regional economy against external shocks and sustain regional economic growth. It could also help overcome the problems caused by the proliferation of FTAs with differing ROOs and overlapping agreements that have resulted in increasing transaction costs for intra-regional trade and raising production costs for production networks in East Asia. It further recommended that EAFTA should follow a gradual and realistic strategy and must begin with the consolidation of the existing three ASEAN+1 FTAs. The report attached importance on the concrete trade and investment facilitation measures which could help all participating economies to fully realize the benefits of an EAFTA.<sup>65</sup>

In the meantime, Japan proposed an alternative approach, the Comprehensive Economic Partnership of East Asia (CEPEA), based on the earlier East Asia Summit (EAS) framework in 2006. A study group was set up in 2007 to prepare a report of recommendations for the ASEAN+6 Economic Ministers. The report, presented in 2008, argued that a wider regional economic partnership that included India, Australia and New Zealand would create larger gains than any other regional FTA.<sup>66</sup> The study sets out CEPEA's objectives as deepening economic

---

<sup>65</sup> Joint Expert Group on EAFTA Phase II Study, *Desirable and Feasible Option for an East Asia FTA: A Report*, Monograph, 2009. ([http://www.thaifta.com/thaifta/Portals/0/eafta\\_phase2.pdf](http://www.thaifta.com/thaifta/Portals/0/eafta_phase2.pdf)).

<sup>66</sup> According to the Global Trade Analysis Project (GTAP) model, EAFTA would result in a 1.93 per cent increase of gross domestic product, while CEPEA would result in a 2.05 per cent increase in gross domestic product (CEPEA Track Two Study Group 2009).

integration, narrowing development gaps, and achieving sustainable development through three pillars of economic cooperation, facilitation of trade and investment, and liberalization of trade and investment as well as institutional developments.<sup>67</sup>

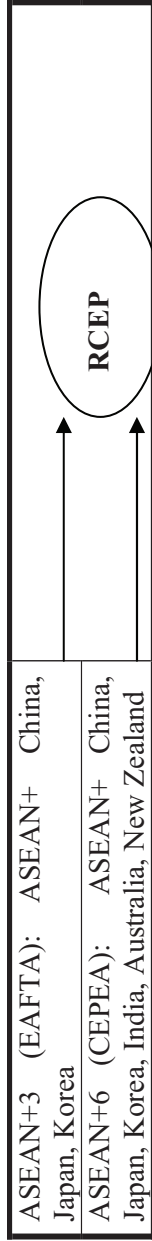
Following these studies, during the Fourth East Asia Summit in October 2009, officials were tasked to consider the recommendations of both EAFTA and CEPEA studies. In August 2011, East Asia Summit Economic Ministers welcomed a Chinese and Japanese joint ‘Initiative on Speeding up the Establishment of EAFTA and CEPEA’. To end the debate, in November 2011, ASEAN proposed its own model for an ASEAN-centric regional FTA – the Regional Comprehensive Economic Partnership (RCEP) (*Figure 2*).

*RCEP: In Reaction to TPP.* Besides the concern over China’s or Japan’s dominance through EAFTA or CEPEA, ASEAN felt external pressure through the TPP, which was announced as a “gold standard” FTA in 2011. With a grand promotion of TPP by the U.S. on potential benefits and real opportunity costs of trade liberalization, it seems to have cornered ASEAN states. It seemed to have swept away the ASEAN-centred pattern of ‘plus’ diplomacy that has underpinned Asian regionalism to date (ASEAN+1, ASEAN+3 or ASEAN+6 and later +8). Moreover, it was felt that the US was not interested in promoting regional trade integration with ASEAN countries as a group. While China, India, Australia-New Zealand, Japan and Korea have enacted FTAs with ASEAN and the EU has been proposing an FTA with ASEAN as well, the US has not discussed the possibility of an US-ASEAN FTA. Instead, the US went for bilateral FTAs with Singapore and other selected ASEAN countries under the framework of TPP. This reflects US’ interests over high-level FTAs with comprehensive coverage and its view on the lack of preparedness of some ASEAN countries to participate in such FTAs. Even the older forum of APEC that was supported by the US and connected the U.S. to Asia includes only seven ASEAN members – Brunei, Indonesia, Malaysia,

---

<sup>67</sup> Phase II Report of the Track Two Study Group on Comprehensive Economic Partnership in East Asia, 2009. (<https://www.dfat.gov.au/asean/eas/cepea-phase-2-report.pdf>).

*Figure 2: Efforts under Various Framework*



the Philippines, Singapore, Thailand and Vietnam.<sup>68</sup> In contrast, RCEP showcases ASEAN's principle of "all for one and one for all", as a key component of its foreign economic relations.

*RCEP: Showcasing ASEAN's Unity and Centrality in a Wider Regional Architecture.* The RCEP agreement showcases ASEAN member state's importance for collective economic cooperation. The flexibility principle in the RCEP, such as "the agreement can be accomplished in a sequential manner or single undertaking or through any other agreed modality" and "the agreement shall provide for special and differential treatment to ASEAN Member States"<sup>69</sup> provides a generous consideration of each state's development needs. The leaders believe that ASEAN states need to forge closer ties, forming common positions on numerous issues, in order to negotiate with bigger economic partners or other regional groupings. Hence, through RCEP, ASEAN is able to further entrench its centrality, which is an idea that the regional architecture is led by ASEAN and the region's relations with the wider world are conducted keeping in mind the interest of the ASEAN community. That was severely challenged amidst the rapid pace of regional economic cooperation arrangements evolving in the region. The RCEP, once concluded, is expected to demonstrate ASEAN's capability in bringing together its own ten members and external partners for economic growth, development and harmonisation.

## **6. RCEP AND TPP: POSSIBILITY OF CONVERGENCE FOR AN FTAAP?**

While currently the mega-trade agreements are getting negotiated, there are increasing discussions that an enlarged TPP and/ or an enlarged RCEP will lead to the creation of a free trade area for Asia-Pacific (FTAAP)

---

<sup>68</sup> When APEC was established in 1989, ASEAN comprised of only five members – Indonesia, Malaysia, The Philippines, Singapore and Thailand. Brunei became a member in 1984, Vietnam in 1995, Laos and Myanmar in 1997 and Cambodia in 1999.

<sup>69</sup> ASEAN Framework for Regional Comprehensive Economic Partnership (ASEAN Secretariat, 2011).

that is expected to be comprehensive and high-quality in nature and will harmonise rules of integration of other small-scale FTAs in the region. But how far is that possible?

### *6.1 Genesis and Progress in APEC FTAAP*

The idea of an FTAAP was first floated in 2004 by the APEC Business Advisory Council (ABAC), during the 12<sup>th</sup> APEC Economic Leaders' Meeting. The FTAAP proposal for ABAC members was a way 'to accelerate progress toward achievement of the Bogor Goals and full global liberalisation in the WTO' and to minimise 'the possible ill effects associated with the increasingly complex web of RTAs/FTAs in the APEC region'.<sup>70</sup> Academics like Bergsten, argued that the FTAAP (i) will create positive gains from free trade induced by the largest single trade bloc, (ii) become a stepping stone towards global free trade by inducing the WTO and excluded non-members like E.U. to resume the multilateral Doha Development Agenda (DDA) negotiations, (iii) become the best available "Plan B" alternative to the DDA, (iv) prevent competitive liberalizations in the Asia-Pacific region and mitigate the negative effects of the proliferating hub-and-spoke type of overlapping RTAs by consolidating the sub-regional trade blocs into a large umbrella, (v) revitalize APEC, (vi) ameliorate the China-US economic conflict, caused mainly by trade imbalance between the two nations, and (vii) maintain US engagement in Asia.<sup>71</sup>

However, at that time, it did not get much attention from the APEC Leaders. This was not unnatural as the FTAAP possesses regular characteristics of FTAs, i.e. they are legally binding and have high

---

<sup>70</sup> APEC Business Advisory Council (ABAC), 2004. 'Bridging the Pacific: Coping with the Challenges of Globalisation', Report to APEC Economic Leaders, Santiago, Chile.

<sup>71</sup> Bergsten, C. F. (2007). 'A Free Trade Area of the Asia-Pacific in the Wake of the Faltering Doha Round: Trade Policy Alternatives for APEC', in by Charles E Morrison and Eduardo Pedrosa (ed) *An APEC Trade Agenda?: The Political Economy of a Free Trade Area of the Asia-Pacific*, A Joint Study by ABAC and PECC, Singapore: Institute of Southeast Asian Studies.

chances of discrimination against non-members. But this very nature also contradicts APEC's unique feature – voluntary, non-binding and open regionalism. Hence, the pursuit of an FTAAP could be detrimental to APEC's fundamental nature. Moreover, there were doubts about the successful completion of an APEC FTAAP. It was difficult for the U.S. and China to mutually agree on a high-quality FTA. The same was true for Japan, China and Korea, whose broader economic cooperation was constantly mired by historical conflicts and unsettled territorial disputes. In a 2006 joint study by the Pacific Economic Cooperation Council (PECC) and the ABAC, it was even reported that 'the FTAAP is not politically feasible at the present time or in the near term'.<sup>72</sup>

Nevertheless, during the 14<sup>th</sup> APEC Economic Leaders Meeting in 2006, a decision was formed to undertake a feasibility study on FTAAP, which got strong support from the U.S and was viewed as U.S.' strategy to be part of East Asia's regionalism initiatives. As discussed earlier, around that time, the East Asian economic integration was picking up momentum. In addition to rapid proliferation of FTAs in East Asia, the first East Asia Summit was held in Malaysia in December 2005, moving towards a community among the nations of East Asia. There were also regular discussions on establishing an EAFTA, promoted by China and CEPEA, advocated by Japan.

Since 2006, APEC has been examining the feasibility and desirability of an FTAAP as a long-term vision for both APEC economies and the world economy. There has been no concrete decision on what pathways to use to achieve an FTAAP and the timing of such an arrangement. As APEC is not geared for a negotiation anytime soon, the pathways at this point in time are running outside of APEC. This was observed with the emergence of RCEP and TPP, and in the 2010 APEC Leader's Summit, it was announced that an FTAAP should be pursued as a comprehensive free trade agreement by developing and building on ongoing regional undertakings, such as ASEAN+3, ASEAN+6 (now combined as RCEP), and the TPP.

---

<sup>72</sup> The Pacific Economic Cooperation Council and the APEC Business Advisory Council, 2006. 'An APEC Trade Agenda?: The political Economy of a Free Trade Area of a Asia- Pacific'.



## 6.2 Challenges for an FTAAP Using RCEP and/ or TPP as Pathways

An FTAAP, using either of the TPP or the RCEP pathways, would be possible, if it is endorsed by the big powers like the U.S., Japan and China. The most heard criticism of FTAAP is that it may never happen because of the political conflict. Moreover, in their current forms, membership and nature varies significantly. The TPP does not include major powers like China or India. For other ASEAN members, Thailand and the Philippines are considering whether to join. Indonesia views TPP as too complex with its inclusion of labor and environmental issues and a range of difficult issues for Indonesian domestic economy. In contrast, Indonesia is a member of RCEP and is leading the negotiation process for the agreement. However, the US is not a part of the RCEP negotiations.

The second challenge for an FTAAP using the RCEP or the TPP as pathways is the differences in development stages (*Table 15*) and accordingly differences in interests of the negotiating partners. Currently, while TPP has been declared as a 21<sup>st</sup> century, high-standard,

**Table 15: Varying Levels of Development**

<b>Low Income Economies (US\$1,035 or less)</b>	<b>Lower Middle-Income Economies (US\$1,036-US\$4,085)</b>	<b>Upper Middle Income Economies (US\$4,086-US\$12,615)</b>	<b>High Income Economies (US\$12,616 and more)</b>
Cambodia and Myanmar	Indonesia, India, Laos, Philippines, Vietnam	China, Malaysia, Thailand, Mexico, Peru	Australia, Brunei, Japan, Korea, Rep., New Zealand, Singapore, Canada, Chile, United States

*Note: Economies are divided among income groups according to 2012 gross national income (GNI) per capita*

*Source: Author's compilation from World Bank (country classification data)*

comprehensive FTA, deepening economic integration process, RCEP is viewed as more in line with the requirement of developing countries.

Third, both negotiations face complex challenges and appear difficult to conclude. The TPP, although is said to be in its final stages, is facing difficulties as the partner countries are reluctant to close the talks without the assurance that the deal with the U.S. will stick and will not face any roadblocks from the Congress, especially on issues like intellectual property rights, labour and environmental standards. The negotiating countries want the U.S. administration to secure the Trade Promotion Authority (TPA), a ‘fast track’ procedure that pre-commits the Congress to implement legislation, without amendment and within a specified time frame. However, the short-term prospects for U.S. trade liberalization both at the global and the regional level have been dimmed by the expiration of TPA or fast-track negotiating authority in 2008.<sup>73</sup> Given the increasingly fractious U.S. trade politics, it is highly unlikely that in the absence of such procedures, trade accords with major partners could be successfully concluded and enacted. Similarly, the RCEP negotiations are not without complications, especially keeping in mind the dynamics between China, Korea and Japan. The deadline of 2015 looks too optimistic.<sup>74</sup>

### *6.3 Opportunities from an FTAAP*

However, economically, an FTAAP under certain conditions can deliver on maximum trade creation effect and minimum trade diversion effect, terms coined by Jacob Viner in 1950.<sup>75</sup> The conditions are outlined as below:<sup>76</sup>

---

<sup>73</sup> Bergsten, C. Fred; Noland, Marcus and Schott, Jeffrey J. (2011). ‘The Free Trade Area Of The Asia- Pacific: A Constructive Approach To Multilateralizing Asian Regionalism’, *ADBI Working Paper Series*, No. 336.

<sup>74</sup> Zhiming, Xin. “North Asia free-trade area agreement enormously beneficial but years away,” *China Daily*, September 1, 2011.

<sup>75</sup> Trade creation is the phenomenon of displacing the less efficient domestic production to more efficient partner country production. This leads to economic gain as now the country’s resources are more efficiently utilised. However, it is also possible that preferential treatment is extended to a partner country that replaces a more efficient non-FTA partner. In that case, there will be trade

- Market size of the RTA: larger the better
- Pre-RTA intra-regional tariff: higher the better
- Pre-RTA extra-regional tariff: lower the better
- Pre-RTA intra-regional trade volume: deeper the better
- Competitive pre-RTA industrial structure: tougher the better
- Complementary post-RTA industrial structure: stronger the better
- Pre-RTA level of economic development gap: narrower the better
- Geographical proximity: closer the better

Most of the member economies that are currently negotiating TPP or RCEP are satisfying most of the above conditions. Looking at the individual conditions, first, *Table 16* shows that the consolidated market size for both TPP and RCEP (55.6 per cent of the world population and 56.5 per cent of the world GDP) is large enough to create a positive trade creation effect. In other words, in general, there is a net trade creation effect from large markets as it offers economies of scale. Second, while pre-RTA tariff structure is a debatable factor, lower tariff rates of the RCEP and TPP economies (6.4 per cent and 6.9 per cent for RCEP and 3.9 per cent and 4.4 per cent for TPP members) than that of the world as a whole (6.9 per cent and 9.4 per cent) may generate net trade creation effect as TPP or RCEP successfully launches its regional economic cooperation. Third, the higher ratio of intra-regional trade among RCEP and TPP member economies of over 40 per cent and 38 per cent respectively is a promising factor in expecting a large trade creation effect (*Table 17*).

For the other condition of pre-RTA competitive industrial structure, with a large number of members (total members when TPP and RCEP are consolidated are 21), competition between the industries is inevitable. However, with liberalisation of sectors, this may introduce competition, thereby generating efficiency gains and benefiting the entire nation.

---

diversion: the importing country is using a less efficiently produced import. Viner, J. (1950) *The Customs Union Issue*, New York: Carnegie Endowment for International Peace.

<sup>76</sup> Kim, Sangkyom; Park, Innwon and Park, Soonchan, (2013), 'A Free Trade Area of the Asia Pacific (FTAAP): Is It Desirable?', *Journal of East Asian Economic Integration* Vol. 17, No. 1, pp. 3-25.

**Table 16: Key Economic Indicators of RCEP, TPP and APEC Economies, 2012**

	<b>Population (million)</b>	<b>GDP (nominal, US\$ billion)</b>	<b>Per Capita GDP (nominal, US\$)</b>	<b>Simple Mean Applied Tariff Rate (%)</b>	<b>Simple Mean MFN Applied Tariff Rate (%)</b>
Australia	22.906	1,541.70	67,304.47	2.84 <sup>d</sup>	2.70
Brunei	0.4	16.952	42,402.38	3.77 <sup>e</sup>	2.50
Cambodia	15.254	14.118	925.516	12.36 <sup>a</sup>	10.90
Canada	34.827	1,821.45	52,299.76	2.92 <sup>c</sup>	4.30
Chile	17.403	268.177	15,410.12	4.85 <sup>c</sup>	6.00
China	1,354.04	8,221.02	6,071.47	7.93 <sup>d</sup>	9.60
Hong Kong	7.178	263.259	36,676.30	—	—
India	1,227.19	1,841.72	1,500.76	11.46 <sup>b</sup>	13.70
Indonesia	244.468	878.536	3,593.67	5.02 <sup>d</sup>	7.00
Japan	127.611	5,960.27	46,706.72	2.48 <sup>d</sup>	4.60
Korea	50.004	1,129.54	22,588.92	10.33 <sup>e</sup>	13.30
Laos	6.646	9.171	1,379.90	9.25 <sup>a</sup>	N.A.
Malaysia	29.457	304.726	10,344.87	6.75	6.50
Mexico	117.055	1,177.40	10,058.50	7.42 <sup>b</sup>	7.80
Myanmar	63.672	55.273	868.086	4.03 <sup>a</sup>	5.60
New Zealand	4.44	169.831	38,254.62	2.48 <sup>c</sup>	2.00

*continued on next page*

*Table 16 — cont'd*

	Population (million)	GDP (nominal, US\$ billion)	Per Capita GDP (nominal, US\$)	Simple Mean Applied Tariff Rate (%)	Simple Mean MFN Applied Tariff Rate (%)
Papua New Guinea	6.826	15.134	2,217.11	4.40 <sup>c</sup>	N.A
Peru	30.474	198.851	6,525.36	3.17 <sup>a</sup>	3.70
The Philippines	95.8	250.182	2,611.50	5.31 <sup>c</sup>	6.20
Russia	141.924	2,029.81	14,302.09	7.48 <sup>d</sup>	10.00
Singapore	5.312	276.52	52,051.81	0.0 <sup>c</sup>	0.20
Taiwan	23.316	474.149	20,335.92	N.A	6.10
Thailand	67.892	365.966	5,390.41	11.22 <sup>b</sup>	9.80
The U.S.	314.184	16,244.58	51,703.95	2.84 <sup>d</sup>	3.40
Vietnam	88.762	155.565	1,752.62	7.13 <sup>c</sup>	9.50
<b>RCEP (A)</b>	<b>3,403.86</b>	<b>21,191.08</b>	<b>18,984.23</b>	<b>6.40</b>	<b>6.94</b>
<b>TPP (B)</b>	<b>792.83</b>	<b>28,136.01</b>	<b>32,901.26</b>	<b>3.89</b>	<b>4.43</b>
<b>APEC (C)</b>	<b>2,784.28</b>	<b>41,763.60</b>	<b>24,219.17</b>	<b>4.92</b>	<b>5.76</b>
<b>World (D)</b>	<b>7,046.37</b>	<b>72,440.45</b>	<b>10,280.54</b>	<b>6.95</b>	<b>9.45</b>
<b>A+B</b>	<b>3,917.80</b>	<b>40,901.52</b>	<b>20,940.26</b>	<b>5.88</b>	<b>6.47</b>
<b>(A+B)/D (%)</b>	<b>55.6</b>	<b>56.5</b>	<b>203.69</b>	<b>84.66</b>	<b>68.41</b>
<b>A/D (%)</b>	<b>48.31</b>	<b>29.25</b>	<b>184.66</b>	<b>92.05</b>	<b>73.44</b>
<b>B/D (%)</b>	<b>11.25</b>	<b>38.84</b>	<b>320.03</b>	<b>55.94</b>	<b>46.91</b>
<b>C/D (%)</b>	<b>39.51</b>	<b>57.65</b>	<b>235.58</b>	<b>70.75</b>	<b>60.95</b>

Note: a – data is for 2008; b – data is for 2009; c – data is for 2010; d – data is for 2011

Source: World Bank Database, World Trade Organization

**Table 17: Intraregional Trade Share: 2000-2011 (%)**

	<b>2000</b>	<b>2005</b>	<b>2010</b>	<b>2011</b>
ASEAN	22.7	24.9	24.6	24.1
CJK	20.3	23.7	22.1	21.3
RCEP	40.6	43.0	44.1	43.8
TPP	48.1	43.5	39.0	38.6
APEC	72.2	69.5	67.1	66.1

*Source: author's estimate using IMF statistics and The Apec Region Trade and Investment Report, 2012*

For the last two conditions, development gap among members and geographic proximity, the expected welfare effect is difficult to estimate and most likely will not be positive. While both the mega-RTAs have diverse nature of membership, the geographic proximity leading to lower transaction cost is more feasible under RCEP rather than TPP.

There are studies that have quantified the likely welfare effect of these RTAs. One such study by Petri, Plummer and Zhai<sup>77</sup> surmises that while TPP<sup>78</sup> offers benefits of around US\$451 billion, RCEP (also termed as Asian-track) offers US\$644 billion. Benefits increase with the scale of the integration project. The study further mentions that China and the U.S. would gain substantially from an inclusive FTAAP agreement compared to that of sub-regional tracks as they will have access to each other's markets. It estimated that global FTAAP benefits were at US\$2.4 trillion under the TPP template, US\$1.3 trillion under the RCEP template, and US\$1.9 under a template that averages the two.

---

<sup>77</sup> Petri, Peter A., Michael G. Plummer and Fan Zhai. (2012). 'The Trans-Pacific Partnership and Asia-Pacific Integration: A Quantitative Assessment'. *Policy Analysis in International Economics No. 98*. Washington: Peterson Institute for International Economics and East-West Center. See also the website: [asiapacifictrade.org](http://asiapacifictrade.org).

<sup>78</sup> TPP in the study involves 16 members i.e. the current 12 negotiating countries and Indonesia, Korea, the Philippines and Thailand.

On the whole, one might say that while the formation of an FTAAP is a challenge, it offers opportunities too. However, currently, there are two possible scenarios (*Table 18*):

**Table 18: Possible Scenarios for FTAAP**

<b>a) RCEP and TPP will merge to form an FTAAP</b>	<b>b) RCEP and TPP will remain separate Overtime</b>
If inefficiency from coexistence of two RTAs are high	As the development gap between members remains or widens
If countries with dual membership put efforts to harmonize the rules and regulations across the agreements	As RCEP countries have interest in liberalizing manufacturing sector and TPP countries are more keen on liberalizing services, investment and establish rules of IPR, competition policy, labour laws etc.
If countries acknowledges that merging the two will generate economies of scale and hence trade creation effect	As each member countries have to carve out the sensitive sectors to satisfy the domestic constituencies. Like Japan is protective for its farming sector, whereas the U.S. favors its automobile industry.
	As the U.S. and China continue with their international political rivalry
	As the advanced countries see no benefit from joining RCEP and the developing countries finds it difficult to comply with the rules under TPP.

*Source: author's compilation*

- (a) RCEP and TPP will merge to form the Asia-Pacific region-wide FTAAP and
- (b) RCEP and TPP will remain separate and the U.S. and China will not have dual membership.

Member countries, especially the ones with dual membership, will favor merging RCEP and TPP in order to avoid inefficiency from coexistence of the two RTAs. Moreover, as enlarging an FTA entails a larger trade-creation effect for the member countries vis-à-vis a trade diversion effect, there is a higher possibility of combining the RTAs. However, as discussed earlier, the member countries of both RCEP and TPP are at different levels of economic development. This will lead to varied negotiating interests, resulting in a dual-track approach. RCEP, driven by ASEAN, will continue to follow a more accommodative approach and will position RCEP as an extension of AEC. Also, political rivalry between the U.S. and China encompassing discussion on containment and hegemony in the Asia-Pacific region will make it difficult to combine the two mega-RTAs.

Taken the factors together, there are more chances for the RCEP and TPP to remain separate rather than to merge. This may also gain support among the Asian economies as while they want the U.S. presence in the region, they may also like to keep the U.S. distant from certain regional matters, such as the ASEAN+3 cooperation that involves the ten ASEAN countries and China, Korea and Japan.

## **7. CONCLUDING REMARKS**

In response to the slow progress in the multilateral trade agreement of WTO, the lack of vitality in APEC member economies in pursuing Bogor Goals and the regionalism in the West, Asian countries have accelerated bilateral and regional trade initiatives since 2000. Despite such efforts, FTAs remain less utilised, especially because of ‘noodle bowl’ effect from a web of overlapping FTAs and varied rules and procedures in participating countries. As it is believed that global free trade is the final goal, several countries strive not being left out of the latest wave of FTAs. Since 2011, talks on two major FTAs – RCEP and TPP – are in



progress. These mega-trade deals, if successful, will be an unprecedented accomplishment in economic integration in the Asia-Pacific. They will seek not only to deepen regional integration but also to facilitate trade through production networks, most of which comprise of trade in Asia. These will be much more comprehensive compared to current bilateral and regional FTAs. However, the economic value of TPP or RCEP would depend on what could be finally agreed upon and hence could be included in the final agreement. It would depend on to what extent the agreement could strive for deeper “behind the border” integration measures, and could reach an acceptable compromise on the controversial issues. Implementation integrity on the part of all TPP and RCEP members would also be a key to their potential success.

Both the negotiations of TPP and RCEP are expected to be completed in the next two years. As both TPP and RCEP have an accession clause, new members are likely to join in the relatively new future. Over the longer term, there are increasing discussions that an enlarged TPP and/ or an enlarged RCEP will lead to the creation of a FTAAP that is expected to be comprehensive and high-quality in nature and will harmonise rules of integration of other small-scale FTAs in the region.

However, significant challenges remain in combining the RCEP and the TPP agreements, leading to an FTAAP. The trade and investment liberalization through RCEP and TPP encounter obstacles due to diversified interests of member economies. Prospects of combining the mega-trade deals are dimmed by lack of political will. Of course, the positive gains from a larger free trade bloc do exist. Considering the pros and cons, it is more likely for the RCEP and TPP to remain separate for an FTAAP. Nonetheless, it is too early to say anything for definitive on FTAAP. There are already discussions on Chinese considerations for joining TPP and the US’ interests in RCEP developments. Moreover, as RCEP and TPP are still getting negotiated and there is no clarity on the form of FTAAP, it remains to be seen whether the much-hyped FTAAP can be a best practice for a region-wide RTA in future.

Going forward, it is important for the ASEAN states to bear the following in mind:

- ASEAN as an organisation should remember its objective of ‘centrality’ and should try earnestly to respond to any potential conflicts arising from RCEP and TPP.
- As the ASEAN states recognize the benefits of both the U.S. and China as key partners, it is very important to keep both of them interested in the regional trading architecture.
- It might be true that a high quality trade agreement would yield greater gains. But it may also deter new members, such as China, India and other low-income developing countries, from participating in such trading bloc. With this tradeoff in mind, leaders and policy makers must carefully balance the depth and scope of such agreement.
- As policy makers view RCEP and TPP as pathways leading to an effective FTAAP, the countries that have dual membership – four ASEAN members (Brunei, Malaysia, Singapore and Vietnam) and Australia, Japan, New Zealand – need to ensure that trade liberalisation and facilitation either through TPP or RCEP should not create conflicting regulations or restrictive rules of origin. Alternatively, by harmonising the rules and regulations across the agreements, these countries should help lower the business transaction cost in the region, addressing the earlier issue of lower utilisation rate of FTAs.
- Finally, while negotiating, policy makers need to have a vision for the future. They should protect one of the key underlying factors of production fragmentation that have made Asia one of the dynamic regions in the world.



TRS2/14

ISBN 978-981-4519-76-2



9 789814 519762